C5150-3 A

Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

VOL. 28, NO. 14

Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc.

$35 For Census Issue
July 17, 1989

No Fire Sale for Venture, Caldor

Analysts Estimate $1.5B Price Tag for the Discount Pair

By Richard C. Halverson

News Analysis

ST. LOUIS — When May Department Stores put Venture and Caldor on the block last month, it didn't slap any discount price tags on them.

Because they are profitable, ongoing businesses, May will expect to get at least $1.5 billion for the two chains. According to retail analysts, the department store giant could be asking as much as $850 million for Caldor's 120 stores and $650 million for Venture's 73.

This is no distress sale as when the old Zayre Corp., now TJX Cos., unloaded its 388 Zayre stores last October to Ames for less than $800 million to cut its losses.

And, May is in no rush to sell its discount chains, unlike Robert Campeau, who let the 76 Gold Circle stores go last September for a

(Continued on page 75)

FOR SALE!

Caldor	Venture
HQ: Norwalk, Conn.	**HQ:** St. Louis, Mo.
Chairman: Don R. Clarke	**Chairman:** Philip G. Otto
President: Marc I. Balmuth	**President:** Julian M. Seeherman
1988 Sales: $1.574 billion	**1988 Sales:** $1.282 billion
No. of Stores: 119	No. of Stores: 73
Operating Income: $50 million	**Operating Income:** $81 million
Proj. Price Tag: $850 million	**Proj. Price Tag:** $650 million

Source: The May Department Stores Company; industry analysts

'Vendor Store' Makes Its Debut

Don Soderquist, vice chairman of Wal-Mart, at the grand opening of the chain's new 110,000-square-foot experimental 'vendor-designed' store in Janesville, Wis. (DSN photo)

Wal-Mart Test Off to Rousing Start; 2nd Unit Slated for Charlotte, N.C.

By Pete Hisey

JANESVILLE, Wis. — Wal-Mart's new 110,000-square-foot "vendor store" virtually exploded on the scene in this small Wisconsin city in late June.

Dominated by a high-tech Gitano boutique, the new store features far wider aisles, more color and a more upscale merchandise mix than is the case at most Wal-Marts. From the Cannon towel wall to the new home office department in consumer electronics, the prototype displays near-department store merchandising wrinkles throughout.

And yet, it remains clearly a Wal-Mart, in color scheme, in merchandise mix, and most importantly, in pricing.

In the new prototype, key vendors actually designed their own departments, which were then stocked with roughly the same product mix as in other Wal-Marts. There are exceptions, particularly in some smaller areas, where one vendor will be supplying all products, but on the whole, departments feature a traditional merchandise mix.

Power departments in the store include:

- A 20 percent larger home fashions area, designed by Cannon;
- An enclosed CE/audio department featuring Toshiba fax machines, an impressive Pioneer display, a 20-foot run of telephones and TADs, and a video wall;
- A massive kids' apparel department;

(Continued on page 75)

PACE to Install Interactive Kiosks

Will Provide Self-Service Information on Tires and Batteries

By Arthur Markowitz

AURORA, Colo. — PACE is due to install interactive informational kiosks in all its stores this month to become the first membership warehouse to employ this technology chainwide.

The kiosks, which are supplied and serviced by ByVideo Inc., provide information on the B.F. Goodrich tires and Delco batteries carried by PACE, so members can determine which specific products to buy for their vehicles. The units, as a marketing tie-in, also promote PACE's extended tire warranty program.

PACE was considering other functions for the terminals, including using them to order merchandise, president Charles E. Steinbrueck said. "We first want to get an overall reaction to the terminals before looking at other applications. We are aware of their ordering potential and are studying other uses."

The chain decided to use interactive kiosks because members wanted information on what tires and batteries to use on their vehicles. "The terminals provide this information without any payroll expenditure," Steinbrueck said.

ByVideo provides the kiosks and the software, including the informational program that was developed in conjunction with PACE, B.F. Goodrich and Delco. The video display shows various vehicles, while the graphic information details tires and batteries designed for specific cars or trucks, including sku number and price.

ByVideo, from its headquarters in Sunnyvale, Calif., can update the graphic information as PACE adds new items or product listings can be blanked out as PACE drops merchandise. The videodisc that contains the video presentation and basic generic information like how to operate the program will be changed about twice a year.

The kiosks' technology includes self-diagnostic soft-

(Continued on page 78)

China Stabilizes; Chains Shelve Apparel Worries

By Kenneth M. Chanko
International DSN Report

Most general merchandise discounters and apparel off-pricers foresee no major disruption in the flow of apparel to this country from China.

While early in the aftermath of the violent crackdown on the pro-democracy movement there were major concerns about shipments making it out of China, most of those fears have been quelled by the receipt of goods and a return to normalcy in China.

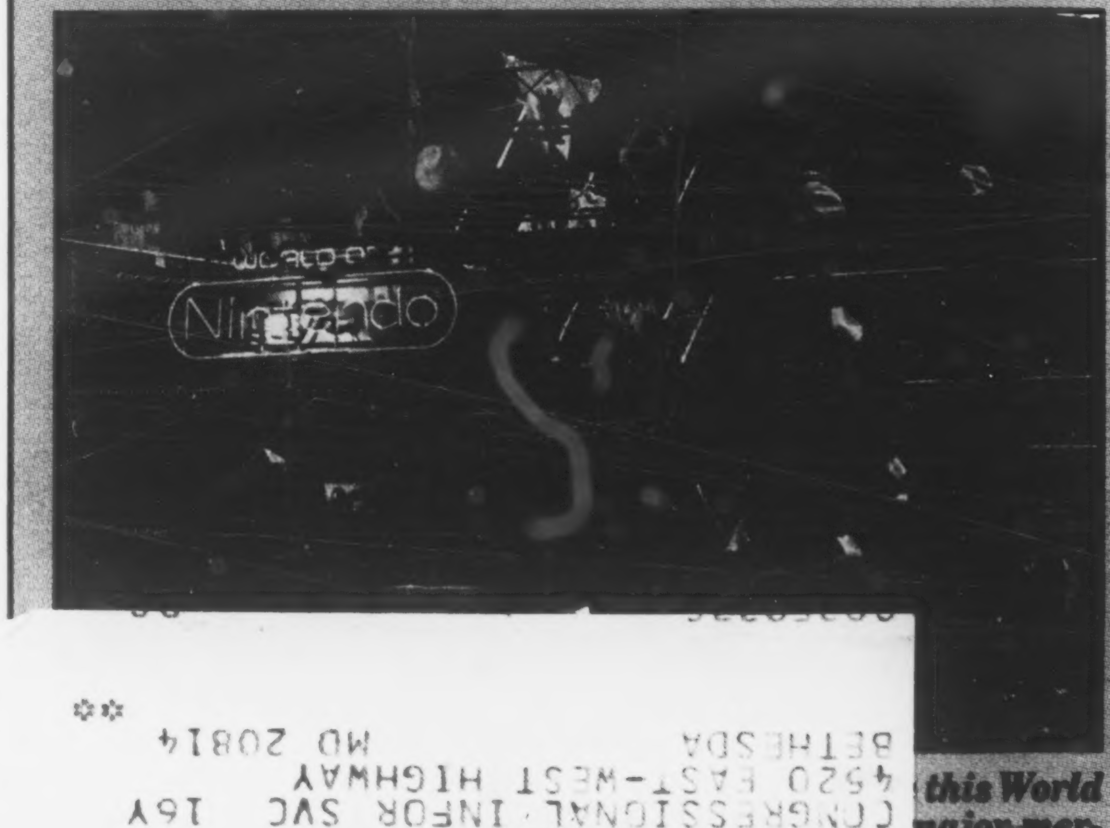
A few discounters said some shipments have been a couple of weeks late.

Also of concern was a Democratic-led call for economic sanctions against China, including removal of its most favored nation (MFN) status, which would mean higher tariffs on textile and apparel imports from China.

However, earlier this month, the House of Representatives voted in a bipartisan measure to impose certain

(Continued on page 78)

Apparel Leads Merchandise Productivity



this World major mer- (DSN photo)

Nationwide DSN Report

Apparel will account for nearly one-third of total volume at full-line discount department stores this year, according to *DSN*'s annual survey of department productivity. Ladies' wear, with a projected $14.5 billion in sales, will be the single largest category, followed by housewares, $11.9 billion.

Last year, warehouse clubs, hypermarkets and electronics chains were the most productive in sales productivity. *DSN*'s Annual Report: Part II, beginning on page 29, also profiles the largest full-line chains.

MS JEANNE LONG
CONGRESSIONAL INFOR SVC 16Y
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

MARKETWATCH

Sears' Big Move: 20 Miles Away

CHICAGO — Sears has decided to move its revamped merchandising group just 20 miles from the 110-story Sears Tower in downtown Chicago to a 700-acre site in suburban Hoffman Estates. To retain Sears, the state of Illinois will provide the retailer with $61.1 million in grants, loans, tax abatements as well as other incentives. Sears will spend $220 million during the next 30-plus months to develop the site, which will be home to about 6,000 of the company's employees. Sears' corporate headquarters with 600 senior executives and other staffers will still remain in the Sears Tower. The merchandising staff's reorganization will be completed next month with the cutting of the last of 825 jobs. The merchandising arm will then be organized into six vertical units, each focusing staff and field operations on a core business like Brand Central or Kids & More.

Circuit City Looks Heavenward

RICHMOND, Va. — Circuit City is the latest retailer to phase in a satellite communications network. The $4 million system, being installed by Hughes Network Systems this summer, will link the retailer's headquarters here to 150 stores in 13 states. Its applications include transmitting sales data, voice communications and sales and management training videos.

QVC Eyes CVN; Gets Favorable Response

MINNEAPOLIS — QVC Network's takeover offer for CVN Cos. has received a "favorable" response from CVN Cos. board. But the board added that it wouldn't take any further action until it received definitive financing commitments from QVC and resolution of details regarding the structure and timing of the proposed transaction.

City of Hope Honors Teninga

SKOKIE, Ill. — Warehouse Club founder and chairman Walter H. Teninga has been presented with the 1989 Spirit of Life Award by the Illinois Food & Marketing Council of the City of Hope. The City of Hope is a non-sectarian medical and research facility.

Penn Traffic Embraces Big Bear

JOHNSTOWN, Pa. — Penn Traffic has completed its acquisition of Big Bear Inc., the Columbus, Ohio-based supermarket parent of Harts discount stores and Big Bear Plus hypermarkets. Penn Traffic, a division of New York-based Miller Tabak Hirsch & Co., operates several supermarket chains and plans to maintain Harts as its discount store arm. Former Big Bear stockholders are to receive $38.60 in cash for each share.

FNN Pulls Plug on TelShop

LOS ANGELES — The Financial News Network has closed TelShop, its cable shopping service, to obtain additional air time for expansion of its FNN:Business program into an around-the-clock operation. FNN is considering alternative channels for TelShop, which was targeted to be a $14 million business this year. Last year it had $10 million in sales and $1.1 million in operating profits.

Brendle's Names Johnson as President

ELKIN, N.C. — Brendle's, in the first step of a restructuring of the 40-showroom chain's executive team, has appointed Dennis B. Johnson as president and chief operating officer and promoted Jeffrey D. Mick to executive vice president and chief financial officer from vice president and chief financial officer. Johnson, previously senior vice president of Famous-Barr, a St. Louis conventional department store chain, succeeds Douglas D. Brendle as president. Brendle continues as chairman and ceo.

FOR THE RECORD

Single copies of *Discount Store News* cost $4 each, except the annual census issues (Annual Report: Parts I & II), which cost $35 each. The July 3 issue of *DSN* did not indicate the correct price. Yearly subscriptions are free to qualified retail and wholesale executives. Manufacturers and others, in the United States, pay $69 for a one-year subscription.

HQ Office Supplies Warehouse opened its fifth store in the United States last month. The Long Beach, Calif.-based chain has stepped up its opening plans to reach 14 to 16 stores by the end of 1989. An article in the July 3 issue of *DSN* incorrectly identified HQ Office Supplies Warehouse as HQ International, a new corporation that plans to open office supply stores in Canada. HQ International is operated by the same executives that founded HQ Office Supplies Warehouse and utilizes the same headquarters.

Lechters Bids for Public Ownership To Fuel Expansion, Store Openings

HARRISON, N.J. — Lechters will become the first housewares specialty store chain to become publicly owned.

The proceeds will be used to "repay indebtedness and pay for new store openings," according to Ira Rosenberg, vice president and corporate counsel of the 271-unit chain based here. "It is prudent to expand the capital base as the company expands, otherwise it becomes too highly leveraged," Rosenberg added.

In the prospectus, Lechters reported sales of $120.8 million and operating income of $13.5 million for the fiscal year ended Jan. 28, 1989, when 234 stores were in operation.

The company plans to open 50 to 60 stores during this year and next, Rosenberg said. Twenty percent—or 10 to 12 stores—of the proposed store openings next year will be in new markets in Western and Southwestern states, he added. The company currently operates stores along the Eastern Seaboard and as far west as Iowa; the only stores farther west are in California.

No changes in Lechters' 2,900-square-foot format are planned. The stores stock over 4,000 sku's, roughly 80 percent of which are brand name non-electric housewares. Sales are divided among basic housewares (60 percent), tabletop items (30 percent), and kitchen textiles (10 percent).

Several of the stores to be opened next year will be The Kitchen Place stores. Lechters operates 11 of these 3,800-square-foot units.

Lechters is also in the process of improving its roughly 200,000-square-foot distribution facility located at its headquarters in Harrison, N.J. Improvements include the installation of an automated loading system, said Rosenberg. The Lechters prospectus stated that the DC upgrade is expected to cost about $1.2 million. Another $7 million would be required if the firm installs a point-of-sale system.

The proposed initial public offering of 1.96 million shares is expected to bring a starting price per share between $16.50 and $19.50. An estimated $12.8 million will be generated assuming an IPO of $18 per share and deductions for underwriting discount and offering expenses, according to the prospectus.

The company reported that 855,555 of the shares are being sold by Lechters, with the balance being sold by shareholders. The dual syndicate structure planned by investment firm Goldman Sachs & Co., New York, calls for offering 1.6 million shares to U.S. investors and 350,000 shares abroad.

Burlington Coat Nears Acquisition

Off-pricer Buys Inventory of Three Bankrupt Cohoes Stores

BURLINGTON, N.J. — Two months after being outbid in bankruptcy court for the remaining Dry Goods stores, Burlington Coat is closing in on the purchase of the three remaining Cohoes Specialty Stores units.

Burlington Coat has already bought the inventory of the three Cohoes stores for $3.2 million at a bankruptcy auction in Cohoes' Chapter 11 proceedings and is in the process of liquidating the merchandise through clearance sales at the three units.

Monroe Milstein, president of Burlington Coat, told *DSN*, "We've been looking at Cohoes for quite a while. They're the Cadillac of moderate-priced apparel chains in the Northeast."

Milstein said if continuing talks led to a purchase, Burlington Coat would operate the stores as Cohoes and not try to integrate the units into the Burlington Coat chain.

The units are located in Cohoes and Rochester, N.Y., and in East Windsor, Conn.

In May, Burlington Coat was outbid at a bankruptcy auction by Schottenstein Stores Corp. for The Dry Goods chain, an apparel off-pricer.

Two More Vendors Added To SPARC Finalists' List

NEW YORK — Due to a tie in the voting, two vendors have been added to the list of sixty top manufacturers that have been nominated as finalists for the 12th annual SPARC (Supplier Performance Awards by Retail Category) awards.

Vivitar joins previously announced Keystone, Kodak and Polaroid as nominees in the photography category, while Union Camp is a finalist along with Faber Castell, Mead and Stuart Hall in the stationery category.

The other nominees in 20 product categories were announced in the June 19 issue of *DSN*. The 1988 SPARC awards will be presented during a special banquet Sunday, Aug. 13, at the Downtown Marriott in Chicago. For reservations and details, contact Fred Filer, vice president/publisher, *Discount Store News*, 425 Park Avenue, New York, N.Y. 10022, (212) 371-9400, ext. 217.

IN THIS ISSUE

DSN Annual Discount Industry Report

Part II: Merchandising and Productivity Analysis 29

Ladies' Wear Leads 14 Merchandise Categories 33

Apparel:

Discount Chains Look for An Edge 36
Fresh Themes, Colors Brighten Jewelry Sales 38

Home Products:

Ensembles Are Key to Housewares 41
New Films, Mid-Priced Cameras Lift Photo Sales 42
Profits Swell as Domestics Upscaling Spreads 42
CE to Show Modest Growth as Prices Firm 46

Hard Lines:

Higher-End Goods Push Stationery 49
Chains Expand Hardware to Nail Down Sales 49
Video Games Power Sales of Other Toys 50
Full-Liners Face Stiff H&BA Competition 51
More Auto Parts, Accessories—Less Service 52
Sporting Goods Sport Sharper Prices 54

Sales Productivity Top 100 57
Discount Stores By Region, State 59

Chain Profiles:
Full-Line Discounters 60-67

FEATURES

Service Helps Jamesway Win DISC Award 8
Rose's Presents 'Vendor of the Year' Awards 8
Wal-Mart Accepts M&M Retailer Award 8
K mart Rolls Out 'Health' Kiosks 14
Rapid Expansion Envisioned for WORKplace 14
Stuarts to Relocate Into New HQ, DC 14

DEPARTMENTS

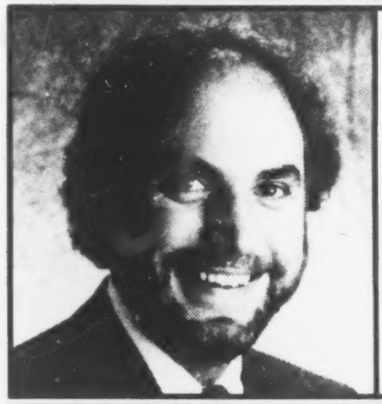
Classified 76
Columns:
Buyers & Sellers 6
Taking Stock/
Mass Merchandisers 4
Washington Report 6
Editorial 6
Executive Changes 25
FinanceWatch 72
Prevention Pays 25

EDITORIAL

May-less Caldor/Venture May Be Better

The handwriting was on the wall. Ever since The May Company merged with Associated Dry Goods and acquired Caldor in August 1986, industry observers were skeptical about the future of the retailer's two discount chains. Almost everyone believed that either Connecticut-based Caldor and Venture—its strong sister chain in the Midwest—would be merged into a super-regional powerhouse or both chains would be sold.

I remember that most analysts shrugged off continuous, adamant denials by May executives that Caldor and Venture would become one chain. When former Venture chairman Don Clarke (followed by president Marc Balmuth) took over Caldor in November 1986, I thought for certain that a merger was inevitable. In fact, I wrote in an editorial that "Caldor would become a Venture clone." At the same time, May president Tom Hays told *Discount Store News* that "Caldor hasn't had a clear set of directives. It hasn't understood the business of discounting."



TONY LISANTI
Editor

But the years passed and nothing happened. No merger and not much growth. And one can only wonder if May was ever truly committed to learning the business of discounting.

When I attended a May Company press conference in early May, it was a replay of the retailer's previous meeting in 1987. The focus of May chairman David Farrell's presentation was the department store business. Rarely were Caldor and Venture even mentioned. Again Hays denied the two chains would be merged though he admitted there was a growing synergy between the discounters. I began to wonder if Caldor and Venture would be better off without May as Gold Circle would have been better off without Federated.

So last week when the May Company put Venture and Caldor on the block, few, if any, retailers and analysts were surprised. Now it's a game of speculation—who will acquire these two venerable discounters?

Several likely names have cropped up as associate editor Richard Halverson mentions in his news analysis beginning on page 1. But the key question is which discount retailer can swallow a billion dollar debt with consumer spending softening and the continued threat of a recession. Furthermore, while several discounters want a slice of Caldor and Venture, no discounter wants, or can afford, the entire pie.

It is likely that an investment group will acquire the two chains and break up the chains like Kimco Development Corp. did with Gold Circle. Or a new parent could do what everyone wanted May to do from the beginning—merge the two chains and create a super-regional discounter that will be more efficient and profitable.

There's no doubt that Caldor and Venture are two strong, viable chains that could prosper given the chance from a parent who understands discounting.

BUYERS & SELLERS

Advances in Merchandising Juice Up Retailing

Discount stores are undergoing a merchandising revolution. And, leading the charge are innovative retailers and vendors who are giving the stores something they've lacked for many years: EXCITEMENT.

The biggest news in apparel retailing at the discounters over the past year is boutiquing and the shop-within-a-store concept. Caldor was the first to take on a Gitano shop in its stores. Now, Ames, Venture and Jamesway are opening several of these single-vendor merchandise areas. Innovative groupings of merchandise can be seen at most any discounter today: McGregor at Stuarts for example, and Brittania at Target.

Boutiquing is not exclusive to apparel. One look at the successful "World of Nintendo" shop at Child World has left several retailers, among them Bradlees and Toys "R" Us, scrambling to follow suit. And, the creation of "home office" shops has added profitable sales growth to the typically commodity-heavy stationery department.

DON LONGO
Exec Editor

The MTV-look has finally trickled down to the mass market level. Sears, that epitome of conservative middle-class values, makes ample use of music videos throughout its new superstore concepts in men's and children's apparel. And, while some Wal-Mart execs might have been a bit skittish about the rock music and gyrating bodies emanating from the video monitors in the Gitano shop at the retailer's new "vendor store" in Wisconsin (see story, page 1), there's no denying the strong message these techniques convey to shoppers: "Hey, we're cool. So are our clothes. Check us out."

Retailer-exclusive merchandise is also helping to add another point of differentiation between discounters. With unprecedented cooperation and input from their vendors, retailers are grouping their merchandise—sometimes across wide product categories—into coordinated assortments with a common marketing thrust. Without doubt, the most compelling example of this is the Martha Stewart home fashions program that essentially is a partnership between K mart and 39 domestics, housewares and home improvement product vendors.

According to a recent study conducted by our sister publication, *Chain Store Age Executive*, discount stores have become the top choice of store for all age groups, all income levels and every size of U.S. household. With such merchandising innovation becoming more widespread, it's no wonder that American consumers have increased their shopping trips to discount stores in the past year while making fewer visits to every other type of store.

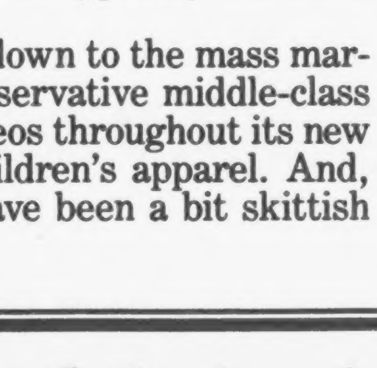
WASHINGTON REPORT

Product-Related Injuries: Who is Responsible?

For years now, Congress has been grappling with the product liability problem, and the question of who should be held responsible for product-related injuries.

The problem is that for many product-related injuries it's simply not possible to assign blame. Who do you hold responsible when the handyman loses his balance and falls off a ladder? Unless the ladder was defective to begin with, it's hard to argue that the manufacturer was at fault. And as long as the product seller didn't contribute to the hazard (e.g.,by failing to pass on warnings or safe usage instructions), you can't logically blame the retailer.

Unfortunately, the courts haven't taken a logical approach to product liability litigation. In too many cases, the plaintiff with the deepest pockets was forced to compensate the victim, regardless of who was responsible.



KEN RANKIN

This lamentable phenomenon, coupled with skyrocketing dollar awards, has sent insurance premiums soaring. One estimate attributes 30 percent of the price of a stepladder to the escalating costs of product liability insurance and damages.

Worse yet, a growing number of manufacturers have dropped their liability insurance coverage—a dangerous situation for their retail customers who could ultimately be forced by the courts to assume responsibility if the supplier is unable to pay damage awards.

The obvious solution to the problem is to rein in the courts with legislation to reform the abuse-prone tort law system.

While discounters have a stake in the passage of product liability reform legislation, some of the pending measures could backfire by creating more exposure for retailers.

A proposal offered by Rep. Thomas Luken, D-Ohio, for one, would hold product sellers responsible for damages "if the manufacturer cannot be brought into court or lacks funds to pay the judgment."Unfortunately,it would also create an unfair disincentive to buy from smaller manufacturers and foreign producers with no U.S.-based operations. This kind of reform discounters don't need.

Discount Store News®

is published by
LEBHAR-FRIEDMAN INC.
425 Park Ave., New York, NY 10022
212 371-9400
Subscription Services, ext. 379 or 419
Cable Address: LEBHAFRIED
Panafax: 212 838-9487

VP/Publisher **FRED J. FILER**

Editor **TONY LISANTI**

Executive Editor **Donald Longo**
Senior Editor **Arthur Markowitz**
Senior Editor **Kenneth M. Chanko**
Senior Editor **Laura Liebeck**
Senior Editor **Peter Hisey**
Associate Editor **Richard C. Halverson**
Associate Editor **Mary Ellen Kelly**
Associate Editor **Pamela Meek** (Los Angeles)
Senior Desk Editor **Martha Gioumousis**
Desk Editor **Michael Vickerman**
Desk Editor **Dawn Wilensky**
Editorial Assistant **Danita Minnis**

Art Director **Robert Brokman**
Graphic Artist **Karen Kikta**

Assoc. Publisher/Nat'l Sales Mgr. **JOHN FAILLA**
District Manager **Kevin Kennedy**
New York Area Manager **Jeffrey Larssen**

Production Manager **Mary Lewis**
Circulation Manager **Martha Pattley**
Business Manager **Roch Minieri**
Classified Ad Manager **Carole Harnoff**
Director of Manufacturing **Stan Kaufman**

Group Publisher **James T. deGraffenreid**

DSN Board of Advisors

Jack E. Bush Pres., Rose's
Stephen Goldberger Chmn., Pres., Hills
Peter Hayes Pres., ceo, Child World
Richard Hersh Pres., IMRA
Peter Hollis Pres., Ames
Harry Kohn Jr. Pres., Stuarts
Arlie Lazarus Pres., Jamesway
Joseph Nusim Pres., CEO, Makro U.S.A.
Julian Seeherman Pres., Venture Stores
Stephen Westerfield Pres., ceo, WORKplace
Warren W. White GM, Clover
Ray Zimmerman Chmn., Service Merchandise

Founder (1900-1981) **Arnold D. Friedman**

President **J. Roger Friedman**
VP/Publication Services **Barry Braverman**
Sr. VP/Group Publisher **James T. deGraffenreid**
VP/Administration **Harry A. Estes**
VP/Publisher **Jay Forbes**
VP/Finance **James Granato**
VP/Human Resources **Richard D. Groberg**
VP/Editorial Director **David Q. Mahler**
Sr. VP/Group Publisher **C. Reese Musgrave**
Treasurer **Barry Olum**

REGIONAL OFFICES

Boston 1 Gateway Center, Newton, MA 02158
617-527-6394
Regional Manager **James Malver**

Cleveland Summit One Bldg., 4700 Rockside Rd., Independence, OH 44131
216-642-3420
Office Manager **Martha MacVean**
Area Manager **Dave Tuttle**

Chicago 444 N. Michigan Ave., Chicago, IL 60611
312-644-8686
District Manager **Bruce Smith**

Los Angeles 606 N. Larchmont Blvd.,
Los Angeles, CA 90004
213-464-8321
Regional Manager **John Donoghue**
Area Manager **Howard Zabner**
Associate Editor **Pamela Meek**

San Francisco 400 Montgomery St.,
San Francisco, CA 94104
415-362-2575
Regional Manager **Richard J. Harrigan Jr.**

Washington 117-35 Striley Drive,
Ashton, MD 20861
301-774-3695
Manager, Correspondent **Kenneth Rankin**
Correspondent **Deane Evans**

Japan Diamond-Friedman Ltd. Chain Store Age News Japan 1-4-2 Kasumigaseki, Chiyoda-ku
Tokyo, Japan 504-6750

Publisher of Discount Store News, Accounting Today, Nation's Restaurant News, National Home Center News, Drug Store News, Chain Store Age Executive (with Shopping Center Age), *APPAREL merchandising*. Affiliates: Business Guides Inc. (Directories); Lebhar-Friedman Books; Inside Retailing (Newsletter); Chain Store Age News, Japan; Largo Music Inc.

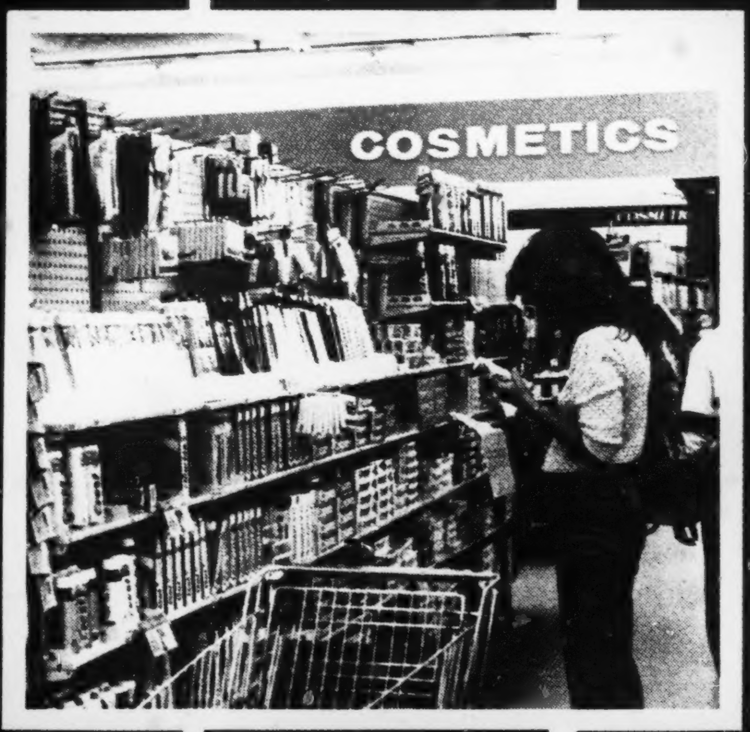
Subscriptions

Call (212) 371-9400, ext. 379 or 419
Having a problem with your subscription? Send full details, including the mailing label from the last copy you received and your telephone number to Circulation Fulfillment Director, *Discount Store News*, 305 Madison Ave., Suite 535, New York, NY 10165-0079.

Permissions

Materials in this publication may not be reproduced in any form without written permission. Direct permission requests to Fred J. Filer, publisher, *Discount Store News*, 425 Park Ave., New York, NY 10022.

We welcome our readers' views, whether pro or con. Letters to the editor should be addressed to: Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022.



Lee Rider
Brittania
Brittania
Color denim

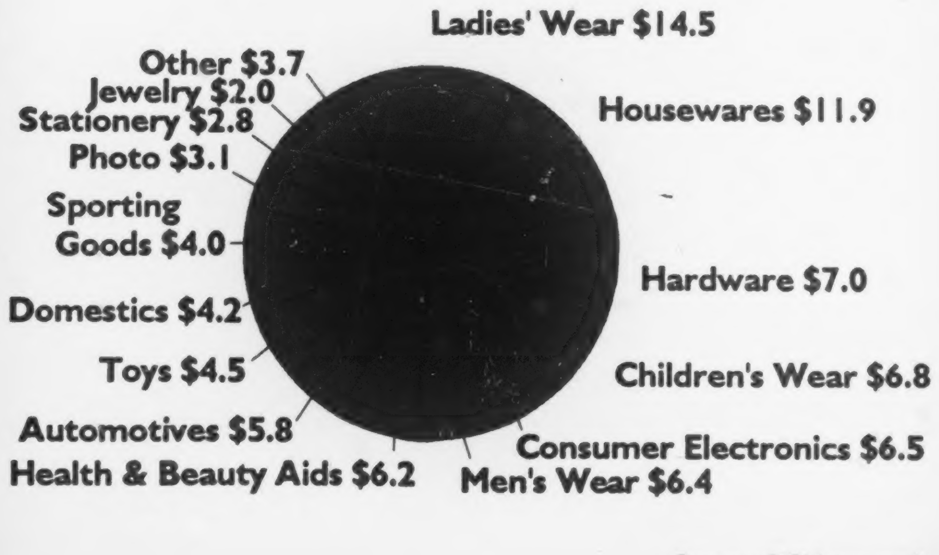
Discount Store News.

ANNUAL REPORT 1988

PART II: Merchandising & Productivity

Full-Line Discount Store Productivity

(Projected 1989 Sales in Billions)



Source: DSN research

Discount Industry Annual Report

PART II: MERCHANDISING AND PRODUCTIVITY ANALYSIS

Ladies' Wear Still Tops in Sales

Combined $28B Apparel Sales to Account For Almost One-Third of Full-Liners' Volume

Fourteen distinct product categories will generate nearly $86 billion of the projected $89.4 billion full-line discount department stores will ring up in sales this year.

Ladies' wear, as expected, will be the top volume-producing category, with $14.5 billion in sales at full-liners. With an average women's apparel department of 11,000 square feet, the average discount store will reap about $1.8 million in sales from its women's apparel department.

Housewares, including electric and personal care appliances, non-electric household products and ready-to-assemble furniture, will produce nearly $11.9 billion in sales for full-line discount department stores. Department size for all housewares will average 7,550 square feet and sales per store will hit nearly $1.5 million.

The next-highest sales categories at full-liners are projected to be hardware, including paint ($7 billion), children's wear ($6.8 billion), consumer electronics ($6.5 billion), men's wear ($6.4 billion) and health and beauty aids ($6.2 billion).

Automotives will generate $5.8 billion, toys,$4.5 billion, domestics,$4.2 billion, and sporting goods,$4 billion. The photo category, including film and cameras, will produce sales of $3.1 billion. Stationery, including non-electronic home office products, back-to-school and greeting cards, will generate $2.8 billion, followed by jewelry with $2 billion.

Other products, such as food and snacks, pets and accessories, tobacco, building supplies and the like, will total $3.7 billion in sales this year.

The 14 categories shift dramatically when ranked by the amount of sales they generate per square foot of selling space. The photo category, given less space by many discounters, leads in sales floor productivity. High priced camcorders, often included in this figure, will help push the department to over $750 per square foot in sales. Other categories that yield high sales per square foot of selling space will be jewelry ($384.62), consumer electronics ($353.26), and automotives ($315.22).

Ladies' wear will be the top volume-generating category at discounters this year, with sales projected at $14.5 billion at full-line discount stores. (DSN photo)

The fastest turning department is health and beauty aids. Other high-turn categories include men's and women's apparel and stationery. The merchandise categories that turn the slowest are sporting goods, hardware and jewelry.

In terms of gross margin, the leaders will be: jewelry (42.8 percent), stationery (41.7 percent), domestics (34.2 percent), men's wear (33.1 percent), women's wear (32.3 percent), hardware (32.3 percent), and children's wear (30.6 percent).

Altogether, the 14 categories average an annual turn rate of 3.31 times and a gross margin of 28.95 percent.

DSN projects full-line discount store productivity by merchandise category based on its annual projections of discount store sales.

This special section is the second part of *DSN*'s annual state-of-the-industry report. Part I, which was presented in the July 3 issue of *DSN*, provided information on the top 150 discount department stores, membership clubs, off-price apparel chains, catalog showrooms and other types of specialty chains in the nation, the leading variety store chains, top general merchandisers, deep discount drug chains, and electronic and home shopping services.

Part II: Merchandising and Productivity Analysis begins on page 36 with special merchandising reports on the 14 top discount department store product categories. *DSN* examines the sales productivity of the top 150 discount chains on page 57 and provides a look at discount department store, membership club and catalog showrooms' store count by region and state, including the top chains in each region and state, on page 59.

The special report, compiled by the entire *DSN* staff, concludes with special profiles on the leading full-line discount department store chains.

Full-Line Discount Store Productivity

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales Per/ Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	$14.5	$1,813	11,000	$164.77	4.0	48.9%	32.3%
Housewares	11.9	1,488	7,550	197.02	3.4	35.4	24.2
Hardware	7.0	875	4,500	194.44	2.2	40.2	32.3
Children's Wear	6.8	850	7,500	113.33	3.5	44.2	30.6
Consumer Electronics	6.5	813	2,300	353.26	3.5	30.0	16.2
Men's Wear	6.4	800	6,500	123.08	4.1	46.7	33.1
Health & Beauty Aids	6.2	775	3,200	242.19	5.0	25.5	19.5
Automotives	5.8	725	2,300	315.22	3.2	34.0	25.5
Toys	4.5	563	2,500	225.00	3.1	36.7	26.8
Domestics	4.2	525	4,000	131.25	2.5	43.8	34.2
Sporting Goods	4.0	500	2,500	200.00	2.0	37.1	28.4
Photo	3.1	388	500	775.00	3.8	25.5	18.0
Stationery	2.8	350	2,000	175.00	4.0	46.4	41.7
Jewelry	2.0	250	650	384.62	2.1	52.5	42.8

Other categories totaled $3.7 billion.

Housewares includes personal care, small electrics, non-electrics and RTA furniture.

Hardware includes paint.

Children's includes girls', boys', infants' and toddlers' wear.

Source: DSN research

Annual Discount Industry Report

Part II: Merchandising and Productivity Analysis

Apparel

Ladies' Wear 36
Men's Wear 36
Children's Wear 36
Jewelry 38

Home Products

Housewares 41
Photo 42
Domestics 42
Consumer Electronics . 46

Hard Lines

Stationery 49
Hardware 49
Toys 50
Health & Beauty Aids .. 51
Automotives 52
Sporting Goods 54
Sales Productivity 57
Chains by Region, State . 59
Chain Profiles:
Full-Line Discounters . 60-67

APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

Discount Chains Look for An Edge

ANNUAL REPORT PART II

As the importance of apparel—and the margins that this category produces—continues to grow, competition among general merchandise discounters is heating up.

While there remains plenty of room for sales growth for everyone—especially when selling space devoted to apparel continues to increase at many discounters—there are definite signs that discounters are maneuvering for any advantage that is possible.

The opening of the brand floodgates has also heightened competition. Practically every national jeans brand, for example, is now readily available to discounters, as are such former department and specialty store brands as Manhattan, Campus and Brittania.

Along with an increase in the importance of brands has come a greater emphasis on upscale merchandising presentations and the development of exclusive licensing deals and/or private labels that help retailers differentiate themselves from their competition.

Women's Wear Is Back

The women's apparel category has bounced back nicely from the flat 1987 and 1988 period.

The drop-off had never been as serious for most discounters—or even off-pricers like T.J. Maxx and Marshalls—as it was for department stores and specialty stores like The Limited and The Gap.

However, there is still no one particular look or item driving the women's wear business, which has some executives nervous. Styles have simply gone slightly more conservative and career-oriented.

Nonetheless, the general feeling is that fall and holiday will be strong seasons for women's apparel. The inventory situation at most discounters right now is better—meaning leaner—than this time last year.

The biggest recent news in the women's wear category at discounters is in the area of merchandise presentation—specifically, the shop-within-a-store concept.

Caldor was the first to experiment with a Gitano shop earlier this year, and right now such discounters as Ames, Venture and Jamesway are adding anywhere between one and six of the shops.

The idea, again, is differentiation. In addition to any significant store label programs, discounters are also seeking to differentiate themselves by going with shop concepts and boutique groupings.

Practically any discounter who wants it can carry Lee, Cape Cod, Chic, Land's End and Gitano in its women's wear department. But to have a special single-vendor shop sets off the store from the rest.

In private label, no discounter has been able to maximize and promote a store label the way K mart has with its Jaclyn Smith collection.

In launching Bobbie Brooks early last year, Wal-Mart tried to develop the label and position it similarly to K mart's Jaclyn Smith, but, at least so far, Wal-Mart hasn't been able to make the line as distinctive or as appealing to consumers.

There's also talk that Target is toying with the idea of debuting a major store label in women's wear sometime soon.

The discounter has already developed a small line of Greatland/Will Steger-licensed women's wear in sweaters, printed sweatshirts, knit tops and corduroy pants.

Ladies' wear is the largest volume producing category for full-line discounters. This year, full-liners are expected to garner $14.5 billion in ladies' wear sales. The department will turn an average of 4.0 times annually and gross margin will average 32.3 percent.

Off-price apparel chains will add another $6.1 billion to the total $20.9 billion in ladies' wear sales through discount mass market outlets this year.

The even-keeled men's wear category at most general merchandise discounters continues its smooth sailing.

Infant' and toddlers' apparel—pictured above at this Meriden, Conn., Bradlees unit—is one of the stronger categories in all soft goods. Knit tops, including prints, shown on display at Twin Valu in Cuyahoga Falls, Ohio, are contributing to solid spring/summer business in men's wear. (DSN photos)

This category hardly ever sees the dramatic peaks and valleys that its female counterpart subjects itself to, but that doesn't mean men's wear buyers can sit back and just keep reordering the same product season after season.

With Brittania, McGregor, Manhattan, Campus and Reed st. James, as well as Levi's, Wrangler and Rustler, brands are plentiful in this category.

Discounters are beginning to merchandise certain stylish brands—like Brittania—as if it were women's wear.

Target recently rolled out a significant chainwide, table-merchandised Brittania program. And Wal-Mart is expected to do similar things with Brittania product before year-end.

New Men's Wear Line

In addition, Target will soon be offering a significant Greatland/Will Steger men's wear line, including sweaters, sweatshirts, T-shirts, sport shirts, fleece coordinates, pants and a variety of outerwear.

Men's wear is a $6.4 billion sales category for full-line discounters. This year, the department will turn 4.1 times annually and achieve an average gross margin of 33.1 percent. Another $3.1 billion in men's wear will be rung up at off-price apparel specialty chains.

Children's wear—which includes both infants' and toddlers'—has been selling strongly as discounters appear to be stepping up both branded and

(Continued on page 38)

Apparel: $37.2 Billion

Ladies' Wear $20.9 Billion	
Full-Line Discounters	$14.5B
Catalogers	$0.3B
Specialty Discounters	$6.1B
Full-Line Discount Store Productivity	
Sales	$14.5B
Sales Per Store	$1,812,500
Dept. Size	11,000 Sq. Ft.
Sales Per Sq. Ft.	$164.77
Turns	4.0
Initial Markup	48.9%
Gross Margin	32.3%

Men's Wear $9.5 Billion	
Full-Line Discounters	$6.4B
Catalogers	NA
Specialty Discounters	$3.1B
Full-Line Discount Store Productivity	
Sales	$6.4B
Sales Per Store	$800,000
Dept. Size	6,500 Sq. Ft.
Sales Per Sq. Ft.	$123.08
Turns	4.1
Initial Markup	46.7%
Gross Margin	33.1%

Children's Wear* $6.8 Billion	
Full-Line Discounters	$6.8B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.8B
Sales Per Store	$850,000
Dept. Size	7,500 Sq. Ft.
Sales Per Sq. Ft.	$113.33
Turns	3.5
Initial Markup	4[illegible].2%
Gross Margin	30.6%

**Children's includes girls', boys', infants' and toddlers' wear.*
NA—not available

Source: DSN *research*

Fresh Themes, Colors Brighten Jewelry Sales

Jewelry: $5.4 Billion	
Full-Line Discounters	$2.0B
Catalogers	$2.6B
Specialty Discounters	$0.8B
Full-Line Discount Store Productivity	
Sales	$2.0B
Sales Per Store	$250,000
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$384.62
Turns	2.1
Initial Markup	52.5%
Gross Margin	42.8%

Source: DSN *research*

Freshness in the apparel industry helped propel jewelry sales at many discounters across the country last year.

After a lackluster 1987, when numerous apparel styles floundered and flopped at retail, new fabric treatments, colors and themes helped to revitalize the category.

Jewelry, in turn, benefited from the revival, as pattern mixes, Southwestern influences, tropical prints and ethnic looks proliferated.

Dots, checks and stripes—singularly or mixed—decorated earrings and necklaces, belts, handbags and scarfs. Bright tropical prints and jungle themes complemented the geometric patterns, and stood alone as well.

The past year also saw jewelry turn to a Western theme. Unlike the past, however, the influence this time was more Tex-Mex, as jewelry sported a cross between Indian, Western and Guatemalan looks.

Additionally, jewelry took on a gilded craftware feel, that combined ethnic looks with a hand-crafted impression. On pins, earrings and necklaces the folklore theme represented worldwide influences from such areas as Asia, Africa and the Mediterranean. The ethnic influenced-jewelry worked especially well with apparel's batik prints, tie-dyed looks and olive drabs.

And, working with these varied jewelry looks were also nostalgic and romantic themes. Crystals, gemstones, moons, stars and charms combined to supply discounters with near "Beauty and the Beast" mystical looks.

The '60s influence continued to hold strong during the year, too, with a definite turn toward surf-inspired brights. Channel looks and traditional classics also kept their place at most discounters.

Watches, too, played an important role in many jewelry departments. No longer desired by consumers to be merely a functional piece, watches took on more character and uniqueness during the past year.

Although the introduction of Swatch watches and ensuing knockoffs in the past few years had created much of this appeal, not until recently were consumers able to start finding many of these department store looks at the discount store level.

For holiday, watches were studded with rhinestones and chip diamonds, while year-round looks included retro 1930s styles, moon faces, textured leather bands and chain bracelets in gold and silver.

In many instances, watches became the focal jewelry point, as many women opted for a less-is-more look with their accessories.

And although there were a few exceptions, most discounters tried to keep their fashion watches under $100.

Traditional and basic watches also supplied discounters with a stable and less fad-intensive selection. Generally under $50, the basics came on strong for such traditional times as Father's Day, Christmas and graduation.

In both watches and general jewelry advertising, discounters turned this past year to varied techniques.

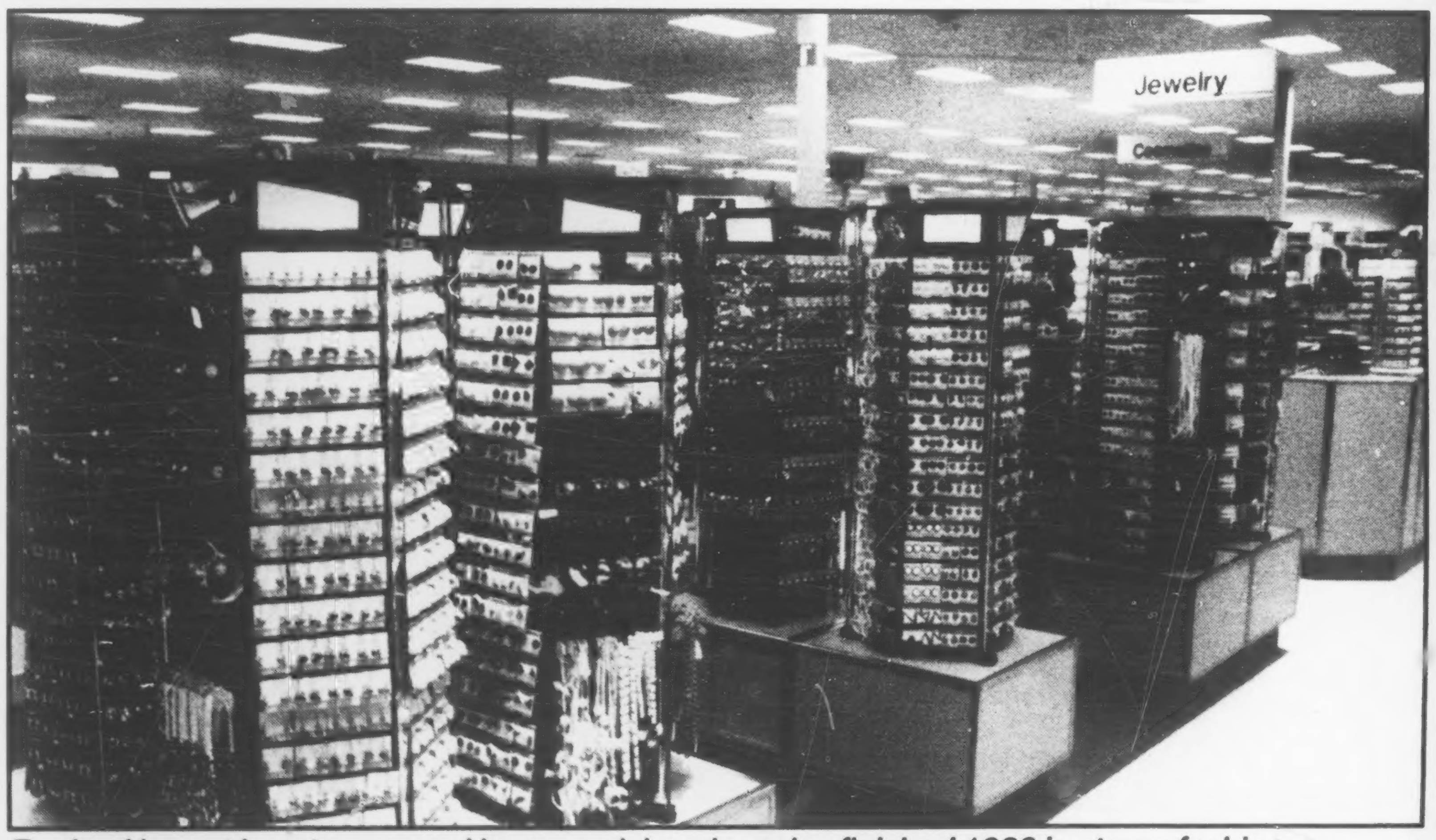
At Minneapolis-based Target, major promotions included running popular brands and categories at 25 percent off, while at Canton, Mass.-based Hills the advertising centered around everyday low pricing.

For Henderson, N.C.-based Rose's, the chain aggressively advertised its jewelry department after completing a major remerchandising program last fall.

Going forward, *DSN* projects that full-line discount stores will record $2 billion in jewelry sales, while catalog showrooms capture the bulk of the volume with $2.6 billion in sales this year.

At full-line stores, the average jewelry department measures 650 square feet, achieves an annual turn ratio of 2.1 times and a gross margin of 42.8 percent.

Key jewelry styles now on the horizon show an expansion of many of the past year's looks. Romantic and nostalgic styles, with simple yet exquisite lines and pearls, will play off textured and multi-finished classics. Fun, low-end looks will also proliferate at most discounters. Fad items like Batman digital watches under $10 will add novelty to the category.



Revived in part by a turnaround in apparel, jewelry sales finished 1988 in strong fashion. (DSN photo)

Discount Chains Look for An Edge

(Continued from page 36)

private label product. Also, licensed product is more important as of late than it was several years ago.

Discounters have always had a stronger children's wear franchise than men's or women's, due to price sensitivity.

However, discounters are being pressured into offering fashion-for-a-price because of the competitive heat Kids "R" Us is turning on the general merchandise discounters.

Right now, the licensed product to have—at least for older boys—is, of course, "Batman." Younger kids are taking to the movie, "Honey, I Shrunk the Kids," and apparel licensed product off this Disney Studio release might be more important than originally anticipated. Coming for Christmas—and expected to make a licensing impact—is a full-length animated feature of "The Jetsons."

An illustration of the drive to obtain something exclusive that can be successfully marketed is Montgomery Ward's recent deal for Raggedy Ann and Andy licensed apparel from infants' to boys' and girls' in many categories. Sears has been successful with its Winnie-the-Pooh and McKids lines, both exclusive to Sears, and Ward felt compelled to fight back.

Full-line discounters will rack up $6.8 billion in children's wear sales this year, achieving an annual turn rate of 3.5 times and an average gross margin of 30.6 percent.

What's ours is ours.

The two items shown in this ad are items developed by Amity Leather Products Company. One of the items is a Saddlebag Travel Kit while the other is a Safari Kit. Several knockoffs or imitations of these items have appeared in the marketplace. Most of them are no longer being sold because we have vigorously enforced our property rights against imitations.

We are proud of our products, our designs and our name. We work hard to be innovative and to develop new ideas. This is part of our leadership in the industry and it helps ensure that the customer and the consumer get the genuine article when they invest in Amity products.

Many of Amity's products are the subject of patents and patent applications. We are determined to ensure that our patent and trademark rights are not violated.

AMITY®

LININGS CONTAIN DUPONT NYLON ©1989 Amity Leather Products Company, Inc., West Bend, WI 53095

HOME PRODUCTS

HOUSEWARES / DOMESTICS / PHOTO / CONSUMER ELECTRONICS / HOME OFFICE / RTA FURNITURE

Ensembles Key to Housewares

ANNUAL REPORT PART II

Growth in housewares this year will come from the same types of products that fueled sales in 1988: decorative accessories, tabletop merchandise, and closet storage. The major trend that will continue this year is the development by retailers and vendors of fashion-oriented, coordinated ensembles of goods.

An example of this trend was K mart's innovative marketing program to include a wide range of home-related products under its Martha Stewart label. Other retailers, working from suggestions offered by the Center for Homewares Design, also played variations on this theme. And, more and more makers of lamps, clocks, flatware and other home goods are now licensing dinnerware patterns to create an ensemble of merchandise.

Even within individual manufacturing companies the trend toward promoting a coordinated look is evidenced by new packaging campaigns. An example is the CROSS program launched last year by Anchor Hocking glass which grouped the various pieces into collections and stimulated add-on sales by picturing the completed ensemble on the back of product boxes.

Like the patterns Tea Rose by Pfaltzgraff and both Heartland and Marmalade by International China, Corning has begun licensing its motifs. Regent Sheffield staged its first presentation of Corning licensed flatware during the San Francisco Gourmet Show last April.

Closet organizers are echoing the patterns found among tabletop lines; most new patterns are florals. Geometrics and the incorporation of solid wood and wood veneers that were introduced to the trade last year are expected to catch on in popularity this year, according to vendors.

The newest offshoot of closet organizers are those that take the category outside of the housewares department and into the hardware department. Garages and home workshops represent the next frontier to be put into order through modular shelving, pegboards and racks, manufacturers said.

Some retailers, like Target, have introduced a private label program to its closet organizer category, working with several vendors to produce a coordinated collection. Many retailers are planning to increase their commitment to the category including Rose's, Harts and others.

Housewares*: $13.3 Billion

Non-Electrics $8.0 Billion	
Full-Line Discounters	7.3B
Catalogers	$0.7B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.3B
Sales Per Store	$912,500
Dept. Size	6,000 Sq. Ft.
Sales Per Sq. Ft.	$152.08
Turns	3.3
Initial Markup	38.6%
Gross Margin	30.4%

Personal Care $3.0 Billion	
Full-Line Discounters	$2.8B
Catalogers	$0.2B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.8B
Sales Per Store	$350,000
Dept. Size	750 Sq. Ft.
Sales Per Sq. Ft.	$466.60
Turns	3.5
Initial Markup	34.3%
Gross Margin	21.1%

Electrics $2.3 Billion	
Full-Line Discounters	$1.8B
Catalogers	$0.5B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$1.8B
Sales Per Store	$225,000
Dept. Size	800 Sq. Ft.
Sales Per Sq. Ft.	$281.20
Turns	3.5
Initial Markup	33.2%
Gross Margin	21.1%

**Includes small electrics, personal care, non-electrics and RTA furniture.*
NA—not available

Source: DSN *research*

lifestyle furniture

Home office units are the growth area in RTA. A steady stream of new products by vendors is keeping the category fresh. (DSN photos)

Martha Stewart

Keeping with the trend of coordinated ensemble goods is K mart's Martha Stewart label.

Conversely, ready-to-assemble furniture is still selling strong, but not as ensembles. The ensemble presentation is not the hot selling point in the category; consumers still tend to buy each piece according to function, not because they plan to create a unified look with additional ready-to-assemble purchases.

The exception, however could be found among home office RTA where coordinated pieces are almost mandatory in order to serve this function. Home office furniture units are frequently designed to work in concert with other units in order to be effective. The workstation will have an uneven surface if the printer stand, desk, corner unit, bookcase, file cabinet, etc., are not made with identical height and width specifications. Home office continues to be singled out by both retailers and manufacturers as the growth segment of the RTA furniture business.

Black was the main attraction among appliance introductions. The allure of a high-tech black/chrome decor for the kitchen appears to be catching on, perhaps due to the growing number of men who are finding their way into the kitchen when their wives work late. Black is also returning to popularity among personal care appliances.

The year's hottest new products fell under the broad heading of health: water purifying systems, massage aids like those from Clairol's Family Practice division and new innovations like the denture cleaning appliance from Denta Plus.

Microwave oven sales continue to be sluggish due to lack of demand. The sales upswing, sparked by replacement unit sales, is expected to be as much as five to 10 years down the road. Early indications suggest replacement sales—when they materialize—will be for upgraded models that offer a wider spectrum of capabilities.

Changes influencing the growth of the housewares industry last year and into the 1990s will not only be the much spoken of market consolidation through mergers. As discounters and specialty stores continue to go nearly head-to-head on all but very upper-end goods, dollar store operators are likely to fill the void for commodity housewares merchandise sales.

Full-line discounters will face increased competition on housewares merchandise, not only due to specialty stores, catalog showrooms and membership warehouse clubs. The burgeoning manufacturer-operated factory outlet stores have become increasingly popular. The high-end china, glass and flatware vendors are no longer the only ones running these types of off-price stores.

Serious Inroads in Sales

Discount store housewares suppliers like Corning and Remington are now selling their own products and have the potential to make serious inroads on discounter sales, even if caution is taken in positioning these stores far from the K marts, Wal-Marts and Targets they supply. Consumers are willing to travel many extra miles to go to a factory mall, based on customer shopping surveys at these malls.

The political unrest in China is expected to remain on the minds of retailers and manufacturers, especially as the fourth quarter selling season approaches. While some placed their orders far enough in advance to receive the finished goods or materials required to take them through the end of 1989, many retailers have not. The housewares industry is not heavily dependent on China for most of its products, but there are many vendors who would be seriously hurt.

Total housewares industry sales through discount channels are projected to be $13.3 billion in 1989. Discount department stores will sell $11.9 billion worth of housewares. Another $1.4 billion will be sold by catalog showrooms.

At full-liners, housewares are projected to turn 3.4 times annually and achieve a gross margin of 24.2 percent.

New Films, Mid-Priced Cameras Lift Sales

For the first time in years, a revolution in film technology is more than just a public relations catchphrase. The major piece of news, still video, is of course not so much film as "media," but its impact, for the short term, should be less profound than that of a couple of new film products—Reala from Fuji and OneFilm from Polaroid.

Reala, previewed at the February Photo Marketing Association show, just hit the market, and its flexibility and color trueness should make it a hit in advanced amateur and some professional circles. The film, which is expected to retail at slightly more than conventional products, includes a new color layer that negates the effects of fluorescent light in indoor situations.

On a mass market note, however, its main selling point is a far deeper, richer and more realistic representation of the color spectrum, resulting in soft, true skin tones and bolder colors.

cessories
Compact 35mm
Compact 35mm

Photo at Target, Eagan, Minn.: Sales of inexpensive 35mm point-and-shoot cameras, some priced under $20, have picked up as of late.

While there really isn't much new about OneFilm, it represents a clever marketing angle. Most amateur photo bugs remain confused by the bewildering variety of films on the market—high-speed films, indoor films, outdoor films, low-light films and so on.

Most consumers would, frankly, prefer to use just one kind of film, and some industry observers question the need for the plethora of films currently on the market. However, most film makers are married to the "film for every condition" concept, leaving a large niche open for Polaroid. That niche, according to Polaroid, is the "please don't make me think" brigade, and there are a lot of them out there.

Apart from film, the big news among discounters continues to be the latest generation of mid-price autofocus cameras. However, inexpensive 35mm point-and-shoot cameras have come on strong, with prices under $20, and they could propel a booming film and processing market.

Overall, the photo business at full-line discounters seems to be stagnant, and even declining at certain chains. Discounters like K mart and Wal-Mart and hypermarkets like Auchan and Twin Valu have turned photo into major statements, but several discounters seem to have de-emphasized the department.

Video seems to be making inroads into the photo market. Camcorders have replaced cameras for a significant portion of the consuming public, and the still video camera has the potential to turn that trend into a revolution.

Camera and film makers point out that no other media can truly replace film. Although prints can be made from still video images, they are a far cry from the quality of 35mm prints.

A saving grace for the industry might be automated semiprofessional cameras like Minolta's Maxxum. Offering the artistic quality and options of an SLR but with the ease of operation of less sophisticated cameras, these new models could bring new photographers into the market.

Photo ***$3.4 Billion***	
Full-Line Discounters	$3.1B
Catalogers	$0.3B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$3.1B
Sales Per Store	$387,500
Dept. Size	500 Sq. Ft.
Sales Per Sq. Ft.	$775.00
Turns	3.8
Initial Markup	25.5%
Gross Margin	18.0%

NA—not available

Source: DSN *research*

The same goes for a round of promotions aimed at children (several new easy-to-use models, including ones from Concord and Keystone), the youth market (Polaroid's Fling), the casual photographer market (Fuji and Kodak disposable 35mm cameras), the elderly and just about any other niche market imaginable. All these campaigns are aimed at luring new users into the market, and to a limited extent, they seem to be working.

The number of rolls shot each year has risen steadily, and is predicted to surge this year. However, since many pictures are being taken with less expensive cameras, the photo market as a whole is just holding steady at best.

Kodak, one of the most familiar brand names in the discount industry, has continued to hold its dominant market share at discount stores, despite an ever-increasing challenge from Fuji, which has made inroads among consumers.

This year, the total photo market at mass merchandisers is expected to reach $3.4 billion, reflecting a decline in camera price points. Discount department stores will garner $3.1 billion from the photo category in 1989, while catalog showroom chains will nab an estimated $0.3 billion.

Film sales should hold steady or rise slightly. Gross margin should rise very slightly, again due to the sales of cameras that are less expensive, but marginally more profitable per dollar.

At full-liners, photo products will turn 3.8 times annually and achieve a gross margin of 18 percent.

Profits Swell as Domestics Upscaling Spreads

Domestics has assumed a new role at discount stores. With hard lines profit margins sinking slowly, soft lines has taken on a much more important role among discounters, and home fashions has become a major profit center.

With Martha Stewart ascendant at K mart, and Target upscaling even further than its traditional upmarket mass position, two of the discount industry's "Big Three" have made a major public position in home fashions.

Wal-Mart, which has kept a lower profile in the department, seems to be upgrading as well. The chain's new vendor store in Wisconsin, for instance, features a revamped, fashion-forward department designed by Cannon Mills, and vendors this spring reported that Wal-Mart buyers were much more interested in fashion goods than was the case in the past.

Domestics ***$5.6 Billion***	
Full-Line Discounters	$4.2B
Catalogers	$0.3B
Specialty Discounters	$1.1B
Full-Line Discount Store Productivity	
Sales	$4.2B
Sales Per Store	$525,000
Dept. Size	4,000 Sq. Ft.
Sales Per Sq. Ft.	$131.25
Turns	2.5
Initial Markup	43.8%
Gross Margin	34.2%

Source: DSN *research*

Upscaling has been a major topic of conversation for at least two years, but it is a reality today. Target, as mentioned, has dealt in more upmarket goods for several years, but in the past 18 months, chains as diverse as Fishers Big Wheel, Caldor and Ames have all turned their attention to domestics.

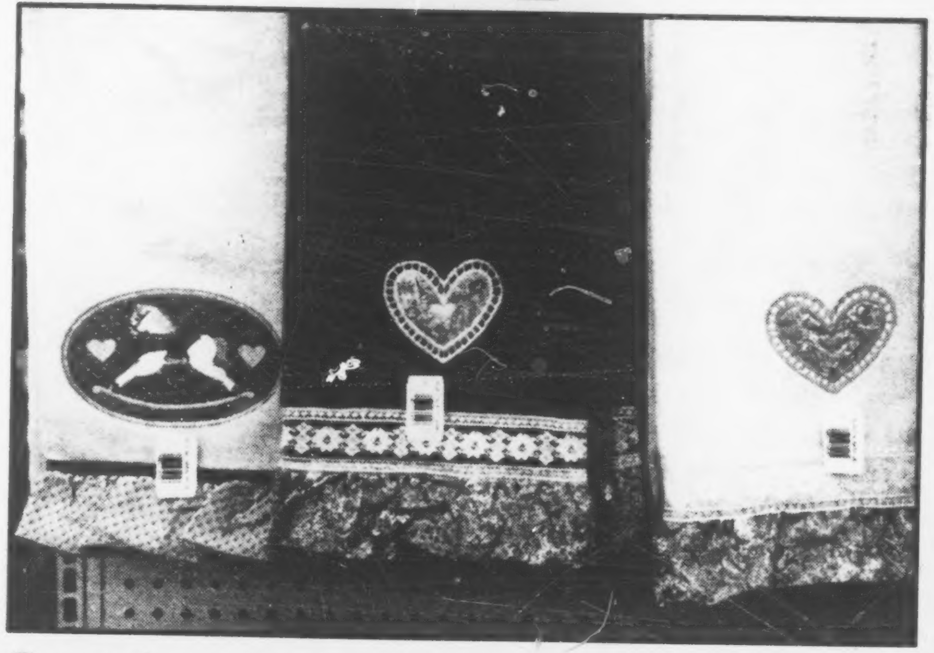
Big Wheel's adoption of a front-and-center power department may have been the most dramatic move among full-line discounters. Outgoing president Stan Brenner brought the idea over from discounter Prange Way, and the installation of a fully coordinated, department store-like home fashions department has been a hit with Big Wheel's small town consumers.

In the most recent domestics market, Target was reportedly buying high-fashion comforters printed on black grounds, a major departure for a discount store. Suppliers as a whole were showing much more contemporary, upscale goods to their discount accounts, primarily, they stressed, because discounters are beginning to feel comfortable marketing fashion.

That contrasts sharply with the situation only three years ago, when discounters felt, to a large extent, that only tried-and-true country looks could sell to conservative discount shoppers.

While country is still a major force, the demographic differences between discount and department store customers have almost disappeared. According to research conducted by *DSN's* special lifestyle merchandising supplement, *HomeMarket Trends*, shoppers in most middle class income ranges are no more likely to shop one outlet than the other. Sears, Montgomery Ward and JCPenney remain the most powerful retailing segment in home fashions, but discounters have closed the gap there as well.

This ties in with several demographic and psychological trends. One in particular has significant bearing on the improved performance of discounters. Americans as a whole are becoming more and more comfortable with their ability to decorate. In short, they trust their tastes, and don't need as much reinforcement as in the past.



Domestics at Fishers Big Wheel, New Castle, Pa.: Upscale touches such as hand-stitched towels are becoming a common sight at full-liners. (DSN photos)

Service, therefore, is no longer as important as it once was and selection is much more so. Also, suppliers have made brand names formerly reserved for department stores available to discounters, or at least have produced attractive discount versions of their upstairs looks. A prime example might be Dundee's production of "Palatial," an almost perfect duplicate of its coveted "Centennial" line of plush bath towels.

Discounters are still very price-conscious, but Target and other chains have successfully pushed their top price limit upward over the past two years. With the change in demographics, shoppers are a bit less price-resistant than before, allowing discounters more freedom in adjusting their merchandise mix.

Sales at discount department stores are projected to reach $4.2 billion dollars this year. This is one of the most dramatic projected jumps in any discount department, yet it could prove to be a very conservative projection.

Perhaps sensing the increased strength of their discount competitors, Sears and Montgomery Ward have developed new upscale home fashions formats, and both mass merchandisers seem to have been successful.

Strangely, the past year has not been kind to home fashions specialty off-pricers. Branden's, the Dayton Hudson off-price chain, folded in early 1989, after getting off to a fast start a year earlier. Home Front was sold, and ended up closing several stores.

Domestics sales through specialty discounters will hit $1.1 billion this year, according to *DSN* estimates.

At full-liners, domestics will turn 2.5 times annually and achieve a gross margin of 34.2 percent.

CE to Show Modest Growth as Prices Firm

For a category given up for dead a few years ago, consumer electronics seems to be turning around. Last year, CE chains expanded rapidly and full-line discount stores started beefing up their CE departments. This year, sales through discount and mass market channels are projected to increase modestly to $13.3 billion, and expansion should continue through 1990.

Of course, most of the gains have been made at the expense of other outlets. At least two major CE chains are in serious danger, JCPenney got out of the business last year, many discount chains have deemphasized the category, and mom and pop operations nationwide are struggling.

At the same time, however, Silo and Circuit City have stepped up their expansion plans, Sears will open some 300 Brand Central departments by year-end, Montgomery Ward has upscaled its Electric Avenue CE power departments, and regional chains like The Good Guys have established themselves as profitable, growing businesses.

The growth has come in the face of product shortages, declining prices, bitter competition, and the lack of any one superhot product, like yesteryear's videocassette recorder. With increased interest in larger-screen TVs, audio components, value-added videotape recorders, camcorders, computers and many other products, prospects, at least for the chosen few, are much brighter than they have been since the "death" of the VCR and the microwave oven.

The hot home office category will also play a part in the discount CE field. As the potential in the category has been realized, first CE chains, then general discounters have moved in. Several computer and fax machine suppliers have recently noted that, long-term, national CE specialty chains like Circuit City and Silo are their most effective outlets, and that discount stores could also play a part in these emerging businesses.

CE has also seen a stabilization of prices, which has stemmed the decline of margins somewhat. Consumers, despite having become accustomed to ever-decreasing prices on electronic goods, should not be put off too badly. While prices have solidified in many areas, most new products now contain added features. For instance, a remote color TV probably sells for about the same amount as a non-remote model last year.

That trend was perhaps the major story at this summer's Consumer Electronics Show in Chicago, where buyers said that while there was relatively little in the way of new and revolutionary introductions, the wide availability of value-added products almost made up for the lack of innovation. "I'm seeing a lot of very saleable product," said one buyer, in a very typical comment.

Along with strong home office and video sales, the industry should see a rebirth of the audio component business. Perhaps because of the popularity of enhanced digital equipment (CD players, most noticeably), sound quality has become more important to consumers. Retailers such as Tops and Silo have been quick to pick up on the trend, but full-line discounters, generally specialists in inexpensive rack systems, have started adding components as well.

While growth in videotape has more or less stalled, audio tape seems to be rallying, particularly high-end chrome and metal formulations. With the price war over in audio tape, manufacturers have turned to value-added promotions, like Fuji's recent inclusion of a sampler compact disc with five-tape bricks and Sony's offer of a three-issue subscription to *Rolling Stone* magazine with a purchase.

The result has been steadily growing sales, mainly at the high end. Full-line discounters, however, seem to have been slow to move into the market, particularly in offering five- and 10-tape bricks.

Overall, specialty retailers, as in most categories, seem to be making the largest gains in the CE market. Because of the high-tech, brand-oriented customer the category attracts, those who specialize and make a considerable inventory investment tend to prosper. On the other hand, retailers like Wal-Mart, which offers a limited selection of very sharply priced most-wanted items, can make a major impact.

Another major impact will be made by Sears' and Ward's power departments, which will add some 1,200 highly competitive retail locations to the CE scene. With well-advertised prices becoming more common, and the "we'll beat any competitor's price" promise almost standard, the CE consumer will become ever more educated and price-conscious.

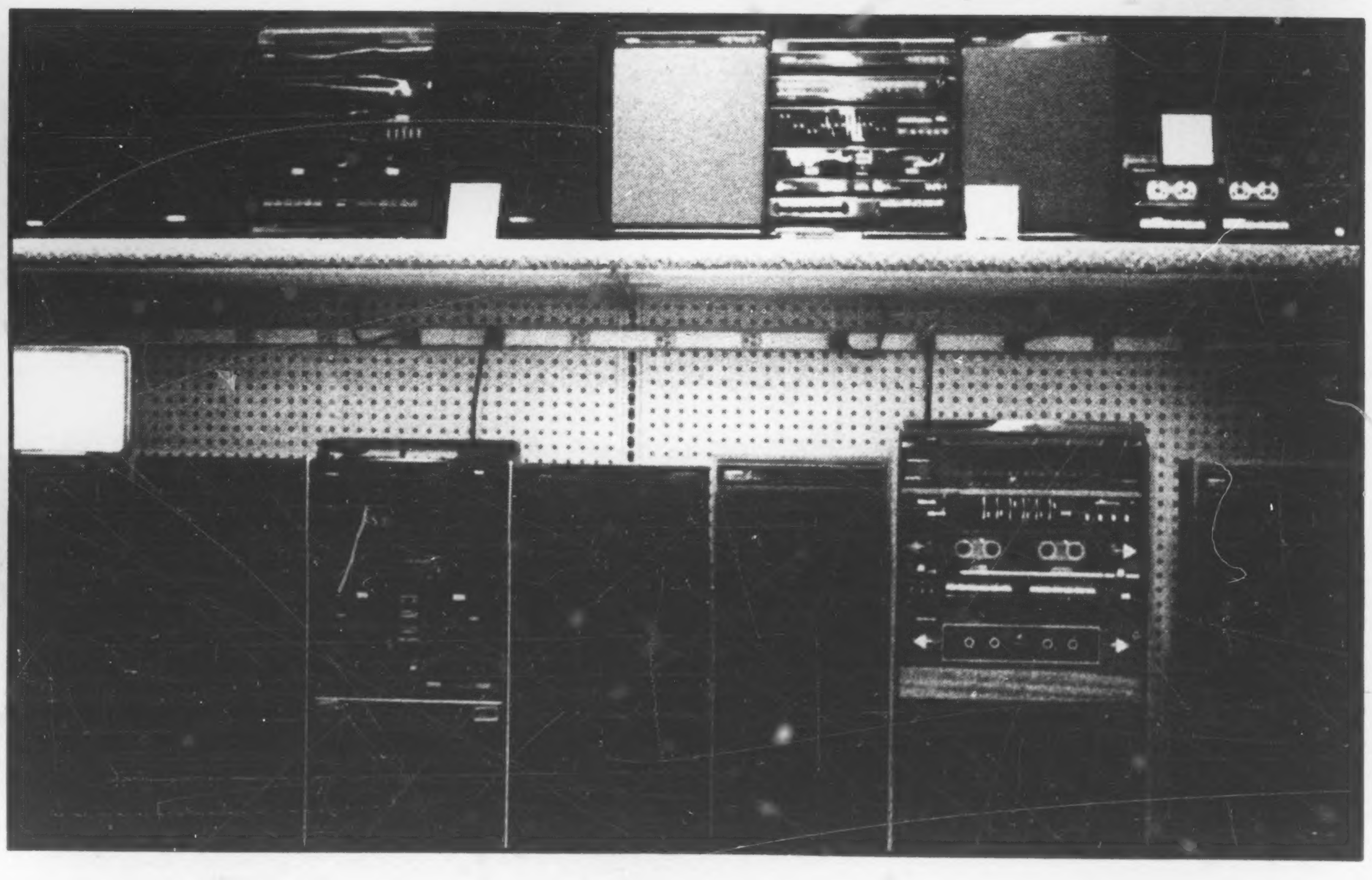
And that could mean another round of the price wars of the recent past. And, probably, another round of chain failures and retrenchments.

This year, discount stores should ring up $6.5 billion in CE sales. Specialty discounters will garner $5.9 billion, while $0.9 billion in CE business will be done by catalog showroom chains.

At full-liners, CE will turn 3.5 times annually and achieve a gross margin of 16.2 percent.

Consumer Electronics $13.3 Billion	
Full-Line Discounters	$6.5B
Catalogers	$0.9B
Specialty Discounters	$5.9B
Full-Line Discount Store Productivity	
Sales	$6.5B
Sales Per Store	$812,500
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$353.26
Turns	3.5
Initial Markup	30.0%
Gross Margin	16.2%

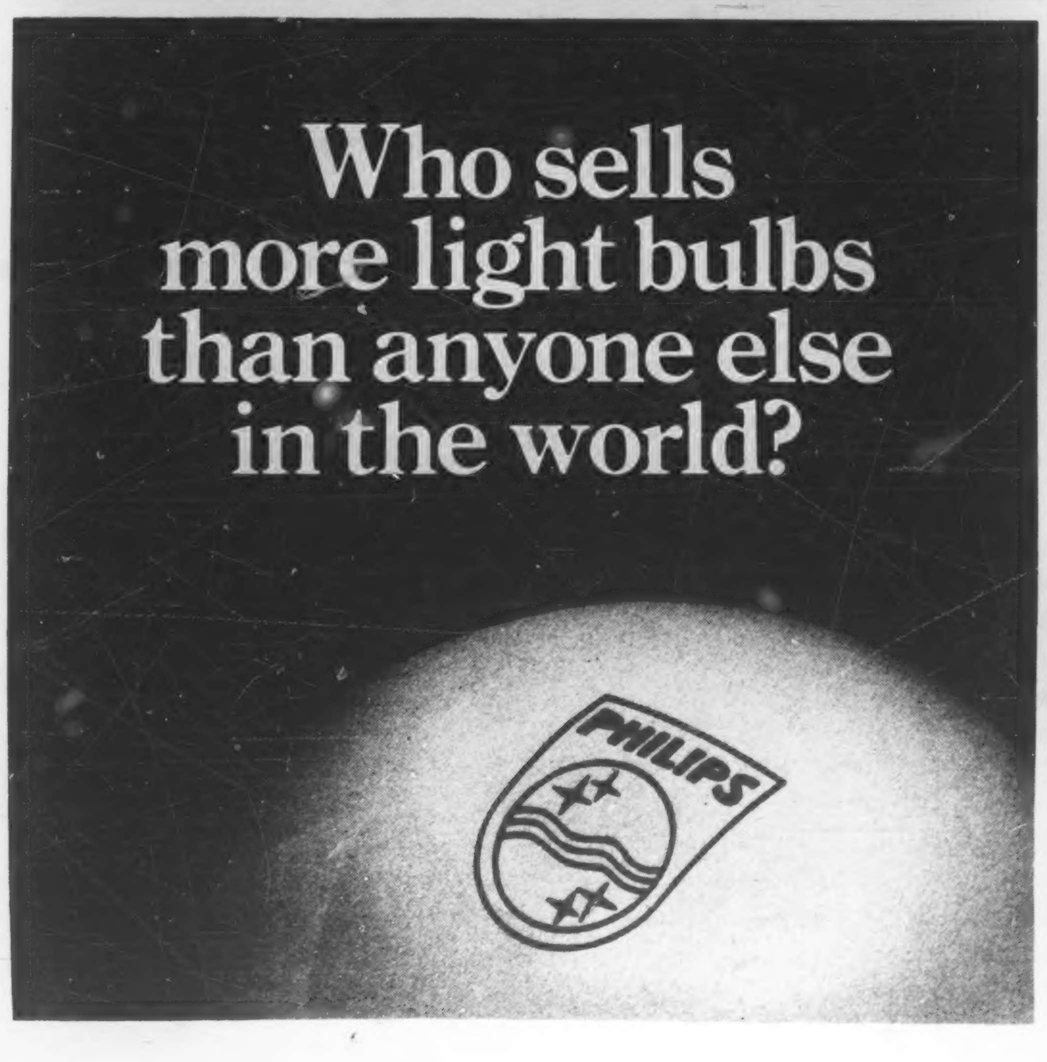
Source: DSN *research*



CE at Ames, Winsted, Conn.: Sales of audio tape (right) have been picking up steam, particularly high-end chrome and metal formulations, while growth in videotape has slowed. The trend toward adding components to inexpensive stereo rack systems (bottom) is accelerating among full-liners. (DSN photos)

Satisfaxtion.
The Driving Force
Behind Every
Toshiba Fax Machine.
1-800-272-7997

In Touch with Tomorrow
TOSHIBA
© Toshiba America Information Systems, Inc.
Telecommunication Systems Division • Retail Products Group
9740 Irvine Blvd. • Irvine, CA 92718



HARD LINES

AUTOMOTIVES / HEALTH & BEAUTY AIDS / HARDWARE / TOYS / STATIONERY / SPORTING GOODS / DIY

Higher-End Goods to Push Sales

Stationery Will Gain from High-Margin Quality Home Office and Fashion School Products

The good news at discount department stores is that higher-margin products, such as quality home office supplies and fashionable school merchandise, will account for most of the sales growth in the stationery department this year.

Commodity stationery products will continue to be a cutthroat business, offering slim margins to discounters as competition intensifies from the growing office supply megastore chains. Through office supply chains, membership warehouse clubs and some discount department stores like Wal-Mart that are targeting this business, sales of multi-pack and higher-count packages should grow in 1989.

ANNUAL REPORT PART II

With about 13 million businesses being operated out of homes, the home office category has become far and away the fastest growing segment of stationery department sales. And, sales of office products should continue to grow well into the 1990s, as the number of at-home businesses grows by about 1 million per year.

Many discount chains have only begun to reap the benefits of this growing business. Secaucus, N.J.-based Jamesway, for instance, recently added home office shops to its stores in urban markets, like Philadephia, while its rural stores maintain only a basic stationery offering.

To combat the increased competition from warehouse clubs, chains like Jamesway are adding more "sizzle and color" to the department, said Larry Fine, divisional merchandise manager, at a seminar earlier this year.

New, uniform packaging programs being introduced by many vendors will help draw traffic to the department and stimulate impulse sales. Many manufacturers are putting a more consumer look on the product packaging.

Similarly, prices on writing instruments are expected to climb as fashion becomes a stronger factor in this area. Where multi-pack pencils and pens, and cheap imported markers were the mainstays of the category in the past, new higher quality, high-fashion markers and highlighters are making an impact in this area.

Scarce supplies and soaring prices are causing problems in the paper area, forcing chains to "eat margins."

The flat office category, formerly dominated by items in the $1 and $2 range—such as typing paper and legal pads—is achieving its greatest gains from goods like file folder systems.

Stationery
$2.8 Billion

Full-Line Discounters	$2.8B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.8B
Sales Per Store	$350,000
Dept. Size	2,000 Sq. Ft.
Sales Per Sq. Ft.	$175.00
Turns	4.0
Initial Markup	46.4%
Gross Margin	41.7%

NA—not available *Source:* DSN *research*

Similarly, the flat school category is no longer dominated by commodities. Filler paper and theme books will continue to be top-selling items, especially at back-to-school time. But, out-of-season sales are being collected by discount stores in upgraded products, such as higher priced, more profitable wireless notebooks.

Additionally, the school business is not as dependent on risky—and often short-lived—licensed themes, such as Willow and Roger Rabbit, as in the recent past. Exciting new designs are dominating departments, creating more of a boutique look when merchandised with associated fashion goods. One distributor predicts that the hot covers of 1989 will be "Super Shades" and "Rad Dog" from Mead, "Neon Brites" and "Pearlites" from Plymouth, and Lisa Franks' designs marketed by Stuart Hall.

Upgraded quality and price points are also affecting the files and boxes category. Fire-resistant features are becoming the norm as typical price points rise from the $20 to $60 range, to as high as $120.

Full-liners will see approximately $2.8 billion in sales through their stationery and greeting cards department. Turns at full-liners will be 4 annually, while gross margins, on average, will be 41.7 percent.

Chains Expand Hardware to Nail Down Sales

After several years of heavy flirtation with apparel, mass merchants appear to be rediscovering the joy of merchandising hardware.

Venture, O'Fallon, Mo., expanded its hardware departments in February, along with sporting goods and automotives, in all 74 stores. The expansion added 4,000 more sku's in the three hard lines departments.

To make room for the increased merchandise, Venture shifted to high-impact merchandising, with planogramming increased to 72 inches from 54 inches. New 84-inch-high gondolas were installed throughout, with extra merchandise stored above to increase the visual impact. The chain invested about $5.5 million for the new fixtures.

Hardware*
$7.1 Billion

Full-Line Discounters	$7.0B
Catalogers	$0.1B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.0B
Sales Per Store	$875,000
Dept. Size	4,500 Sq. Ft.
Sales Per Sq. Ft.	$194.44
Turns	2.2
Initial Markup	40.2%
Gross Margin	32.3%

**Includes paint*
NA—not available *Source:* DSN *research*

As part of its push into more tools, especially power tools, Venture added McCulloch brand chain saws.

In plumbing and bathroom accessories, Venture added Moen faucets, Flotec sump pumps and Town and Country water filters. Other brand hardware additions included GE door chimes, Belwith International cabinet hardware, Edison recessed light fixtures, Angelo lighting fixtures, interior, exterior and trac, and Rubbermaid's Workspace line of tool organizers.

Hills Department Stores, Canton, Mass., with its traditional orientation toward offering apparel and toys to predominately female shoppers, is attempting to build on that base by expanding hardware and other hard lines merchandise.

In February, for instance, Hills added a 6-foot run of ceiling fans in five sku's. Security hardware, motion detector floodlights in particular, is another hot category that Hills is chasing. The chain carries two sku's of motion detector lights from Intellectron in the $29.99 to $40 price range.

In the 35 former Gold Circle stores it acquired last year, Hills got 15 percent to 20 percent more space to devote to lawn and garden for bulky patio sets and gas grills. Gondola length in the converted stores is 28 feet, compared with 26 feet in previous Hills stores.

Because of all the rain this spring and summer, patio sets have been doing poorly. Resin chairs for less than $10 are the exception.

Look for further new offerings in hardware in the months to come, a Hills merchandising executive said. Citing competitive concerns, he declined to specify what they will be.

Outdoor Living
Living

Patio furniture at Twin Valu, Cuyahoga Falls, Ohio: Unusually heavy rains this spring have depressed sales of outdoor resin furniture at many discounters. (DSN photos)

In its remerchandising, Sears is making paint and hardware one of its "power formats." Sears has just rolled out its Brand Central appliance power format, and hardware is expected to come sometime this summer.

Earlier this year, Sears began getting shipments of Dutch Boy paint, one of the new branded lines it will add to its private label offerings.

In plumbing and bath, Sears added Pollenex and Alson's brand of hand-held showers since beginning its test of branded merchandise last year. In addition, in 100 stores Sears has replaced private label towel bars, toilet paper holders and toothbrush holders made by Franklin Brass with brand products from the same vendor.

Vendors also expect Sears to fill in its Craftsman power tool line with brand tools from vendors such as Black & Decker, Makita and Milwaukee.

Also indicating greater emphasis on paint and hardware, Sears is increasing the size of its freestanding paint and hardware stores to a range of 7,000 square feet to 10,000 square feet, up from about 4,000 square feet. Sears will fill the extra space with builders hardware: plumbing, paint, tools and sundry supplies for professional plumbers, masons and contractors.

Sears started the year with 110 of the paint and hardware specialty stores and will add 50 to 75 in 1989 on top of 33 in 1988.

In *DSN*'s 1988 Top Brands survey, Stanley edged out Black & Decker, which had held the top spot for four years. Through its acquisition of Emhart Industries, however, B&D will be making its presence felt even more among discounters. B&D now can offer True Temper garden tools, Kwikset lock sets and Bostik adhesives.

In dollar volume, hardware is the third-largest category for full-line discount department stores, behind only ladies' wear and housewares. The department is projected to generate $7 billion in discount store volume this year, turn an average of 2.2 times annually and achieve an average gross margin of 32.3 percent.

Video Games Power Sales of Other Toys

Toys $8.9 Billion	
Full-Line Discounters	$4.5B
Catalogers	$0.7B
Specialty Discounters	$3.7B
Full-Line Discount Store Productivity	
Sales	$4.5B
Sales Per Store	$562,500
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$225.00
Turns	3.1
Initial Markup	36.7%
Gross Margin	26.8%

Source: DSN *research*

In toy merchandising, the major story of the year arguably would be Nintendo's introduction of its "World of Nintendo" boutique concept, and attempts by retailers to capitalize on the video games craze.

Nintendo said that about 6,000 stores that retail toys—or half the total of 12,000 establishments—signed up to open "World of Nintendo" boutiques within three months of its introduction in January.

Child World, for example, has committed itself to putting Nintendo boutiques in more than 100 of its 163 stores and plans to have them established in all stores by next year. Toys "R" Us is rolling out boutiques in all its stores starting this month. And Lionel Leisure, operating Kiddie City stores, also plans a chainwide rollout.

K mart is testing Nintendo boutiques in two stores, and has signed a letter of intent to install them in its American Fare hypermarkets in Atlanta and, this fall, Charlotte, N.C. Chains such as Target, Bradlees, Caldor, Jamesway and Ames/Zayre have either begun tests or are planning boutique floor plans, Nintendo said. The problem for many of these chains is getting enough Nintendo products to meet their customers' demand.

Venture has not jumped on the Nintendo bandwagon yet, but plans to be aggressive in video games in 1990.

Wal-Mart is considering boutiques for its three hypermarkets, but, as of yet, has not taken an aggressive position in Nintendo. The chain rejected the boutiques for its discount stores.

As an indication why Child World went for World of Nintendo, president and chief executive officer Peter Hayes said that when Child World stores have Nintendo products in stock, sales of other toys do well. Conversely, when stores are out of stock in Nintendo, sales of other toys suffer.

By signing up for Nintendo's merchandising program, discounters can at least hope they will gain an edge in obtaining scarce Nintendo equipment and games. At the least, the boutique system will help them get the most out of Nintendo licensed products.

Nintendo licensed products run the gamut from T-shirts to bubble gum. Parents even can buy Nintendo system cereal, from Ralston Purina.

World of Nintendo boutiques average 150 square feet, although Child World is devoting more than 400 square feet of floor space. Of that space, about 20 percent is devoted to licensed products, Nintendo said.

Retailers either can buy special fixturing from Nintendo or modify their own fixtures with Nintendo signage and adapters. Buying the whole package can cost up to $7,500 per store.

Stuart's, Hopkinton, Mass., expects to have Nintendo boutiques operating in its 21 stores by back-to-school.

"It's common sense, good merchandising," said Phil Brescia, senior buyer for toys and video games. "Everything [from Nintendo] that hit the floor last year sold."

Nintendo gave no assurances that it will give priority on supplies of hardware and games to retailers that sign up for the World of Nintendo program, Brescia said.

But Nintendo let it be known that it "will support the people who support" the World of Nintendo concept, said Anne Seagle, senior buyer for portable audio and video games at Best Buy, Minneapolis. Best Buy is testing a 175-square-foot boutique in one store.

"You're never able to get enough Nintendo" hardware and games, Seagle said.

"I hope to get more product by taking on the boutique concept," Seagle said. In its promo brochures, Nintendo states, "Nintendo will make its best efforts to supply World of Nintendo."

"It's to our advantage to keep Worlds full of product," a Nintendo spokesman said.

Indicative of the hold that Nintendo has taken on the toy market, the Toy Manufacturers of America began for the first time last year tracking video games as a separate toy category.

Nintendo projects sales of Nintendo entertainment systems at 8 million in 1989, up from 7 million in 1988 and 4 million in 1987. By year-end, 19 million, or 21.3 percent, of American homes will have a Nintendo system.

In Nintendo games, it expects to sell 50 million in 1989, compared to 34 million last year.

Nintendo products are driving the sales of other toys, even though Nintendo officially places itself as a producer of consumer electronics products, rather than as a toymaker. Nintendo introduced its World of Nintendo concept at January's Consumer Electronics Show in Las Vegas, Nev., rather than the February Toy Fair. In fact, it declined to display anything at toy show in New York.

Among conventional toys, Fisher-Price, Mattel and Playskool remained the top three brands for the fifth year in a row, in the *DSN* Top Brands Survey for 1988. Hasbro's Milton Bradley line came in fourth and Hasbro alone came in fifth.

Toy sales through mass market channels will hit $8.9 billion in 1989. Of that total, full-line discounters will generate $4.5 billion, catalog showrooms $0.7 billion, and specialty discounters $3.7 billion.

In terms of productivity at full-liners, toys will turn 3.1 times annually, generating an average gross margin of 26.8 percent.

HOME AND OFFICE
HOME AND OFFICE
HOME AND OFFICE
Reminder Books
Memo Books
Memo Books
Memo Books
Record Books
Telephone Address Books
Account Books

Full-Liners Face Stiff H&BA Competition

Health & beauty aids remains an extremely competitive category for many of the nation's discounters. Not only did discounters face competition among themselves and traditional drug store chains, but also from the growing number of deep discount drug stores that continue to spread across the country.

Like discount chains, deep discounters usually narrow their assortment to the best-selling sizes and brands.

What sales growth there has been in the H&BA category, many discounters attribute to strong advertising, product name recognition and overall product performance. Sharp pricing and wide variety are also important.

The outlook for this year is again a competitive one for most discounters as customers continue to shop carefully for their favorite brands.

LISTE
LISTE
LISTELISTE
LISTE
SCOPE
SCOPE
SCOPE

With some newness in the mouthwash area, consumer enthusiasm has continued this year. (DSN photo)

And consumers have shown themselves to be particularly brand-conscious when purchasing H&BA products. Studies show that H&BA brand loyalty rates as one of the highest among the numerous departments at a typical discount store.

According to *DSN*'s Top Brands study, Crest and Colgate are the most popular brand names in H&BA among both consumers and store managers. Other important brands include Lever Bros., Listerine, Johnson & Johnson, Scope, Clairol, Kleenex, Revlon, Mennen, Right Guard and Aqua Net.

Yet despite the brand demand, consumers are somewhat fickle. Nearly 50 percent of the discount store shoppers are willing to switch brands if their desired product is not available. This flexibility, however, does not transcend to private label H&BA goods, which typically receive low marks from consumers.

Few new brands and products, however, hit the shelves in 1988. Instead manufacturers relied more on new packaging, improved formulas and line extensions.

Some newness did come in the mouthwash area, where plaque control rinses became a hot seller. Leading in 1988 was Plax, Viadent and Listerine, and much of the consumer enthusiasm for these products appears to be continuing this year.

Eye care products also supplied some H&BA innovation during the year, with Bausch & Lomb, Allergan, AO Sept and Lens Plus running as top sellers. Generating sales of close to $1 billion, the eye care business is lead primarily by chemicals, which saw a big sales increase in 1988.

Salon and professional hair care products also pumped some excitement into H&BA during the past year. Although the leading hair care sellers continued to be the traditional mainstays, Redmon's Aussie, Helene Curtis' Salon Selectives and Gillete's "salon" Silkience had a strong showing.

Other new hair care introductions include Chesebrough-Pond's Rave Professional Formula shampoos and conditioners, Alberto-Culver's Bold Hold shampoos and conditioners, VO5's Moisturizing shampoos and conditioners, Procter & Gamble's new Dandruff Control Pert Plus, and the expected relaunch of Revlon's Flex shampoos and conditioners.

Thanks to weight loss programs by celebrities—such as Oprah Winfrey—rather than new products, discounters realized some sales gains in diet products. Slim Fast moved quickly to the forefront of the category's volume, and was followed by sugar substitutes Equal and Sweet'N Low, and then Dexatrim and Acutrim.

Chains also looked to instill some excitement into the H&BA department themselves with the expansion or introduction of more ethnic products. K mart, for example, is currently testing Hispanic products at over a dozen locations.

Using some 60-inch sections, the chain's test stores are carrying import products and items and fragrances geared toward the groups' consumer preference. K mart estimates that some 300 of its locations, primarily in the sunbelt, hold the potential for Hispanic H&BA selections.

K mart's overall 20-foot ethnic selection expects to see a 6 percent sales increase this year.

H&BA sales through full-line discounters will hit $6.2 billion in 1989. According to *DSN* research, the H&BA category will achieve an average of 5.0 turns annually, with a gross margin of 19.5 percent.

Health & Beauty Aids $6.2 Billion

Full-Line Discounters	$6.2B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.2B
Sales Per Store	$775,000
Dept. Size	3,200 Sq. Ft.
Sales Per Sq. Ft.	$242.19
Turns	5.0
Initial Markup	25.5%
Gross Margin	19.5%

NA—not available *Source:* DSN *research*

HOME AND OFFICE
HOME AND OFFICE

PROFIT CENTER.

For the most complete line of home and office products in the business, turn to the Management Series from the Mead One Source Force. The one source for everything from paper clips to portfolios to profits.

Mead
The One Source Force In Home And Office.

© 1989, The Mead Corporation

More Auto Parts, Accessories–Less Service

Most Discount Chains Continue Trend Of Closing/Limiting Auto Service Shops

Wal-Mart continues to run counter to the discount industry trend of closing service shops, while K mart, despite cutting back on service, is testing an enlarged auto parts and accessories department. Truck accessories are gaining shelf space, not only at the specialty auto aftermarket chains, but at discount department stores as well. However, the standalone home and auto concept appears to be at a dead end.

And, the latest wrinkle in automotives merchandising is the proposed application of the warehouse concept in a new chain called Auto Giant.

Robert A. McNulty, who founded the HomeClub warehouse club in home improvement, the All-American SportsClub, which was involuntarily liquidated this spring by a bankruptcy trustee, and the HQ Office Supplies Warehouse chain, now is attempting to raise capital for a chain of 50,000-square-foot automotive warehouses.

Because of Securities and Exchange Commission regulations prior to floating an initial public offering of stock, Auto Giant is saying little about its proposed venture, beyond confirming that the first of several 50,000-square-foot warehouses will open in San Bernardino, Calif.

Auto Giant units' merchandising will focus on branded goods, including several lines of national brand tires. Bucking a national trend among discounters, Auto Giant will offer complete automotive service.

K mart continues a process that has been underway for several years of closing unprofitable auto service departments. Only an estimated 1,200 stores out of more than 2,200 offer auto service, down from a previous high of more than 1,600.

Automotives: $10.2 Billion

Full-Line Discounters	$5.8B
Catalogers	$0.1B
Specialty Discounters	$4.3B
Full-Line Discount Store Productivity	
Sales	$5.8B
Sales Per Store	$725,000
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$315.22
Turns	3.2
Initial Markup	34.0%
Gross Margin	25.5%

Source: DSN research

To the contrary, Wal-Mart continues to add auto service in selected new stores and now operates about 275 auto service departments in its 1,275 full-line stores.

Ames, upon acquiring the 388 Zayre Stores, closed the limited service departments still functioning in about 100 stores. In 1987, Zayre had ceased full automotive service, but then reopened discount tire shops called Tire Slashers in 108 stores.

Ames last December closed the Tire Slashers shops and is using the old service bays for storage.

Although K mart is cutting back on service offerings, it is launching a 100-store test of enlarged auto parts and accessories departments. Pickup truck accessories—the fastest growing segment of the aftermarket—will occupy much of the enlarged space, industry sources said.

Truck accessories also will occupy much of the new space in the Auto Palace prototype of ADAP Auto Parts. The Auto Palace stores average 10,000 square feet, compared to a chainwide average of 5,800 square feet. ADAP is increasing sku's to 13,500 from 10,500. Auto Palace offers 120 linear feet of light truck parts and 100 feet of performance accessories.

Sears, Roebuck & Co. continues to expand its standalone auto center merchandising concept. It now has opened three of the centers in the Chicago market, and may open up to five more there.

Wal-Mart is the notable exception to the current trend among discounters of closing service shops and concentrating on parts and accessories. The chain now runs about 275 auto service centers.

Illustrating the influence of its Western Auto acquisition last spring, the stand-alone auto centers offer a variety of national tire brands, including Michelin, Pirelli, Bridgestone and Firestone.

Sears also is taking a branded tire merchandising tack in automotives tests in Richmond, Va., and Milwaukee, Wis.

In four Richmond stores, Sears closed its conventional automotive centers and substituted what it calls Tire America by Sears. Tire America was a tire specialty chain owned by Western Auto. The centers offer only tires, batteries, shocks and services related to tires and electrical systems.

It has moved a limited selection of auto waxes, chemicals, oils and accessories into the store's hardware departments.

In two Milwaukee test stores, Sears also is focusing on a variety of branded tires, batteries and shocks, and services related to tires and batteries. General services, such as tune-ups and lube jobs, are no more.

Western Auto paved the way in branded tire merchandising following its acquisitions of the Tire America and NTW tire specialty chains. In a cross-merchandising move, Western Auto stores now carry Sears DieHard batteries and a few stores are testing Sears Craftsman private label hand tools.

Pep Boys—Manny, Moe & Jack also edged away from its reliance on private label tires by launching a limited move into branded tires, including Michelin and Goodyear. It also discontinued bicycles, a step that reflects a continued decline in the home and auto merchandising concept.

TSS, Brooklyn, N.Y., formerly TSS-Seedman's, for instance, closed two of its four home and auto stores and plans no more.

Western Auto closed about 200 more of its home and auto associate stores in 1988 on top of 200 in 1987. Only about 1,200 Western Auto stores now offer home and auto, down from 2,600 a few years ago and close to a stated goal of 1,000.

And the OTASCO home and auto chain, based in Tulsa, Okla., was liquidated earlier this year by a bankruptcy creditor in possession of the chain. OTASCO was down to 190 stores last year when the chain declared bankruptcy. It once ran more than 300 home and auto stores.

Auto parts and accessories sales through mass market channels will hit $10.2 billion in 1989, with full-line discounters ringing up $5.8 billion in their auto departments. Specialty chains will collect $4.3 billion in sales this year.

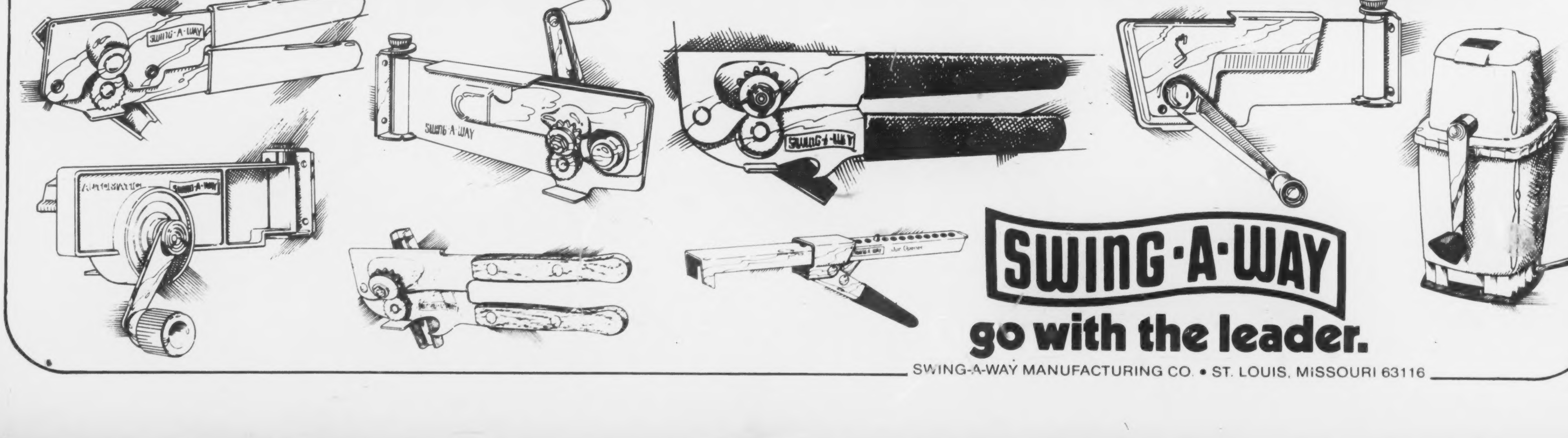
The automotive category at full-line discount stores is projected to attain 3.2 turns annually with an average gross margin of 25.5 percent.

NOTICE TO THE TRADE

Goody Products, Inc., offers accrual based advertising and promotional programs available to all retailers regardless of size, either on a direct basis or through participating wholesalers/rack jobbers. The programs include Goody® hair accessories, Ace® combs, Duray® cosmetic accessories and PrettyNeat® Lifestyles personal care products. Funds are based on substantiated purchases and payment is made on adequate proof of performance in accordance with the requirements of the program.

For additional details, contact your Goody sales representative, local wholesaler/jobber or write to:

Goody Products, Inc.
969 Newark Turnpike
Kearny, New Jersey 07032
Attn: Dept. CO-ADV.


One of the best-known, best-selling brands in housewares.
SWING-A-WAY
go with the leader.
SWING-A-WAY MANUFACTURING CO. • ST. LOUIS, MISSOURI 63116

Warehouses Bring Sharper Prices to Sporting Goods

Sporting Goods: $6.3 Billion	
Full-Line Discounters	$4.0B
Catalogers	$0.6B
Specialty Discounters	$1.7B
Full-Line Discount Store Productivity	
Sales	$4.0B
Sales Per Store	$500,000
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$200.00
Turns	2.0
Initial Markup	37.1%
Gross Margin	28.4%

Source: DSN *research*

The concept of everyday low pricing in sporting goods merchandising has gained a firmer foothold now that K mart has launched its sporting goods warehouse club chain by opening two 50,000-square-foot units in the Detroit market.

Sports Giant offers everyday prices that are 10 percent to 15 percent below prevailing prices.

That contrasts sharply with the full markup pricing policy of, say, Champs Sports, owned by F.W. Woolworth, or the highly promotional pricing of Herman's.

As do other sporting goods warehouses, Sports Giant carries complete lines of athletic apparel, footwear and equipment. In golf, Sports Giant makes a particularly strong statement, offering as large a selection of golf clubs, bags and apparel as most, if not all, golfing specialty shops.

It also offers nearly 13,000 pairs of athletic shoes, including Reebok, which discounters traditionally have had trouble obtaining. Despite attempts to negotiate with Nike, which has displaced Reebok as the hottest athletic shoe line, Sports Giant still carries no Nike footwear.

Another advocate of the supermarket sporting goods merchandising policy is Sports Town, an Atlanta-based warehouse chain. It is set to open a third unit in Houston, today, July 17 and a fourth Aug. 17. That will push the count for the 50,000-square-foot warehouse stores to nine: four in Atlanta, four in Houston and one in Dallas. Sports Town also makes a strong pitch for team sales with good results.

Still another chain that considers "big" as "better" is Casey's, which Thrifty Corp. acquired last year to operate under its Gart Bros. division. Gart will open a 75,000-square-foot Casey's Sports Castle in Kansas City, Mo., in August and another in St. Louis this fall. They will be patterned on similar sized Gart's Sports Castles in Denver and Salt Lake City.

Other examples of the trend toward megastores: Sports Authority, Fort Lauderdale, Fla., plans to build two of its warehouse-style stores next year in Houston; Sportsmart, Niles, Ill., will open three more of its 40,000-square-foot stores for a year-end total of 24, and Oshman's opened four units of its new megastore chain, SuperSports USA.

In a novel merchandising tack, Target has commissioned an exclusive signature line of winter sports apparel and equipment from Will Steger, an Antarctic explorer. In time for back-to-school, Target will offer some 100 items in the Steger line, all at upscale prices. To promote the line, Target is sponsoring Steger's 1990 expedition across the Antarctic.

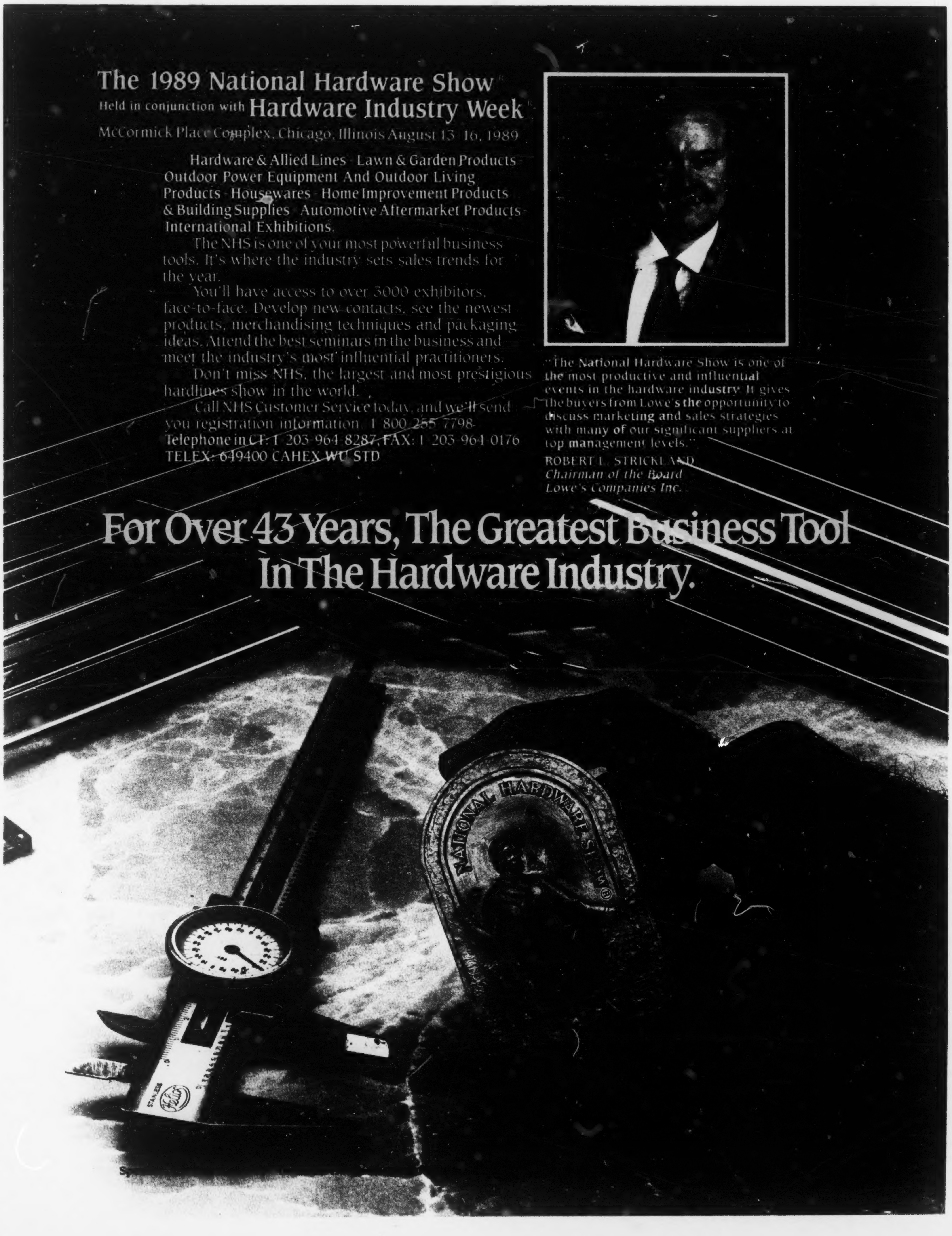
In exercise, treadmills have become the "rowing machine" that is driving the category in 1989. Recumbent exercise bikes, stair climbers and Nordic skiers, which simulate cross-country skiing motions, are new product lines that are keeping exercise alive, despite indications that it was dying in 1986 and 1987.

When merchandising for the masses, look to goods in the swimming, exercise walking, bicycle walking and fishing categories.

Sales trends in the first quarter of 1989 showed that walking shoes and athletic footwear are enjoying healthy gains. Widebody tennis rackets continued their popularity. With competition, prices may come down. For the mass market, retailers such as Spalding and Wilson have introduced cheaper versions of widebody rackets intended to retail for about $30.

Because of poor snowfall in the Northeast, ski equipment sales slipped somewhat, but ski apparel bucked the trend.

Sporting goods sales through mass market outlets will hit $6.3 billion in 1989, with discount department stores garnering $4.0 billion in sales. At the full-liners, the category will turn 2 times annually and achieve an average gross margin of 28.4 percent.



The 1989 National Hardware Show®
Held in conjunction with Hardware Industry Week®
McCormick Place Complex, Chicago, Illinois August 13-16, 1989

Hardware & Allied Lines · Lawn & Garden Products · Outdoor Power Equipment And Outdoor Living Products · Housewares · Home Improvement Products & Building Supplies · Automotive Aftermarket Products · International Exhibitions.

The NHS is one of your most powerful business tools. It's where the industry sets sales trends for the year.

You'll have access to over 3000 exhibitors, face-to-face. Develop new contacts, see the newest products, merchandising techniques and packaging ideas. Attend the best seminars in the business and meet the industry's most influential practitioners.

Don't miss NHS, the largest and most prestigious hardlines show in the world.

Call NHS Customer Service today, and we'll send you registration information. 1-800-255-7798.
Telephone in CT: 1-203-964-8287, FAX: 1-203-964-0176
TELEX: 649400 CAHEX WU STD

"The National Hardware Show is one of the most productive and influential events in the hardware industry. It gives the buyers from Lowe's the opportunity to discuss marketing and sales strategies with many of our significant suppliers at top management levels."

ROBERT L. STRICKLAND
Chairman of the Board
Lowe's Companies Inc.

For Over 43 Years, The Greatest Business Tool In The Hardware Industry.

DISCOUNT INDUSTRY ANNUAL REPORT: PART II

Hypermarkets Rival Clubs in Store Productivity

Membership warehouse clubs, hypermarkets and consumer electronics chains were the top performing retailers last year in terms of sales productivity, according to calculations based on *DSN*'s Top 150 list of leading discounters.

The 10 leading membership warehouse chains are represented among the top 30 discounters ranked on a sales per store basis. Price Club led the group with average sales per store of $98.9 million.

Three hypermarkets rank among the top 10 discounters in sales per store. Hypermart USA racked up an average of $91.7 million per store. Since two of its three stores were not open for the full year, that figure should be even higher next year.

Carrefour, despite struggling for acceptance in the competitive Philadelphia market, achieved $60 million in sales from its sole unit. And Biggs, with three units, averaged $50 million per store last year, as hypermarkets make an impact on U.S. retailing.

Tops Appliances, with two CE and appliance stores in New Jersey, had the highest sales per store average last year, but that figure is a bit deceiving as Tops does a large portion of its business with contractors and builders.

The two leading full-line discounters in per store sales were Meijer ($57.7 million) and Fedco ($57.1 million).

The nation's top 150 discount retailers, which admittedly includes an extremely wide variety of formats, averaged $5.9 million in sales per store.

On a sales per square foot basis, the CE chains were stellar performers. Among the leaders were Tops ($3,200 per square foot), Trader Horn (over $1,000 per square foot), and The Wiz (over $750 per square foot).

Despite their huge size, two warehouse clubs put their large selling floors to very good use. Price Club averaged $988.54 per square foot and Price Savers rang up an average of $461.54 per square foot.

Among full-liners, Meijer, Smitty's and Fedco were the standouts, with average sales per square foot figures ranging over $315.

Sales Productivity of Top 150 Discount Chains

1988 Rank	Chain	Code	Sales Per Store (In Millions)	Sales Per Square Foot	Sales Per Employee (In Thousands)
1	**K mart**	DDS	$ 10.7	$ 184.39	$ 65.5
2	**Wal-Mart**	DDS	13.4	167.00	75.4
3	**Target**	DDS	18.6	185.66	NA
4	**Montgomery Ward**	DDS	14.8	184.57	68.5
5	**Price Club**	CLUB	98.9	988.54	368.5
6	**Sam's**	CLUB	36.5	364.67	284.9
7	**Toys "R" Us**	TOY	8.9	193.27	121.5
8	**Ames**	DDS	4.1	63.88	55.1
9	**Service Merchandise**	CAT	9.8	177.40	156.4
10	**Meijer**	DDS	57.7	320.51	88.2
11	**Zayre**	DDS	NA	NA	NA
12	**Bradlees**	DDS	16.1	223.39	123.9
13	**Best Products**	CAT	10.8	165.58	139.2
14	**Fred Meyer**	DDS	18.5	176.36	NA
15	**Costco**	CLUB	39.8	345.91	276.3
16	**Marshalls**	APP	5.7	202.61	NA
17	**Circuit City**	CE	13.8	430.25	164.2
18	**Hills**	DDS	10.0	125.07	66.8
19	**Caldor**	DDS	13.2	161.30	NA
20	**T.J. Maxx**	APP	4.8	241.88	NA
21	**Pay Less NW**	DRUG	5.4	173.88	NA
22	**Rose's**	DDS	5.8	137.05	65.4
23	**Venture**	DDS	17.6	212.87	NA
24	**ShopKo**	DDS	14.7	210.18	71.1
25	**PACE**	CLUB	32.6	325.90	188.9
26	**Western Auto**	AUTO	2.6	372.98	100.6
27	**Highland Superstores**	CE	10.8	451.88	NA
28	**Silo**	CE	3.9	388.10	232.9
29	**Child World**	TOY	5.0	137.53	141.9
30	**BJ's Wholesale Club**	CLUB	36.4	363.64	NA
31	**Jamesway**	DDS	6.5	112.74	79.9
32	**Kay-Bee**	TOY	1.1	357.63	104.0
33	**Lechmere**	DDS	28.5	379.75	NA
34	**Family Dollar**	DOLLAR	0.5	66.27	NA
35	**Herman's**	SPORT	2.7	269.23	77.8
36	**Fedco**	DDS	57.1	317.13	105.4
37	**Northern Automotive**	AUTO	0.8	135.62	71.0
38	**Pep Boys**	AUTO	2.7	148.33	73.7
39	**Smitty's**	DDS	32.0	320.00	98.5
40	**Burlington Coat**	APP	4.8	95.37	58.1
41	**Thrifty Corp.**	SPORT	2.7	NA	NA
42	**Ross Stores**	APP	4.5	181.14	127.8
43	**Consolidated Stores**	CLOSE	2.0	72.70	61.2
44	**Price Savers**	CLUB	46.2	461.54	NA
45	**Pamida**	DDS	3.4	137.70	87.4
46	**Dollar General**	DOLLAR	0.4	76.27	80.9
47	**Alexanders**	DDS	40.4	161.54	55.3
48	**Best Buy**	CE	12.4	494.63	144.9
49	**AutoZone**	AUTO	1.0	184.77	62.9
50	**Value City**	DDS	9.4	117.78	70.7
51	**Fishers Big Wheel**	DDS	4.6	101.45	80.8
52	**Lionel Leisure**	TOY	4.9	139.12	40.9
53	**Pic 'N' Save**	CLOSE	2.5	106.01	83.8
54	**The Wholesale Club**	CLUB	22.3	223.33	365.5
55	**Hit or Miss**	APP	0.7	203.12	NA
56	**Kids "R" Us**	APP	3.2	158.48	NA
57	**Loehmann's**	APP	4.6	305.02	NA
58	**Clover**	DDS	15.2	179.14	67.0
59	**Tops Appliances**	CE	160.0	3,200.00	NA
60	**ALCO**	DDS	2.1	60.38	70.4
61	**Chief Auto Parts**	AUTO	0.7	217.12	65.0
62	**Oshman's**	SPORT	1.6	158.03	76.3
63	**Heck's**	DDS	4.0	100.33	100.3
64	**Bi-Mart**	DDS	7.9	263.16	166.7
65	**Consumers Distributing**	CAT	3.4	309.92	120.0
66	**Filene's Basement**	APP	13.6	545.45	150.0
67	**Makro**	CLUB	50.0	303.03	NA
68	**Syms**	APP	12.9	273.69	113.2
69	**Hypermart USA**	HYPER	91.7	416.67	183.3
70	**S.E. Nichols**	DDS	6.7	76.82	72.1
71	**Ann & Hope**	DDS	44.2	245.37	NA
72	**Nationwise**	AUTO	0.9	153.22	87.3
73	**Brendles**	CAT	6.5	163.13	108.8
74	**Whitlock**	AUTO	1.0	114.64	NA
75	**Crazy Eddie**	CE	5.9	588.37	NA
76	**The Federated Group**	CE	$ 4.1	$ 138.25	NA
77	**TSS**	DDS	17.9	119.05	$ 87.0
78	**Warehouse Club**	CLUB	20.8	207.50	442.3
79	**Trak Auto**	AUTO	0.9	161.25	79.8
80	**Newmark & Lewis**	CE	4.6	508.55	286.1
81	**American TV**	CE	33.6	419.64	130.6
82	**The Wiz**	CE	9.0	753.21	NA
83	**Fretter**	CE	4.3	356.48	NA
84	**Rich's**	DDS	11.0	182.54	76.7
85	**L. Luria & Son**	CAT	4.6	176.76	70.1
86	**Dress Barn**	APP	0.5	134.92	68.0
87	**Harts**	DDS	6.2	90.91	72.9
88	**Audio-Video Affiliates**	CE	1.6	156.80	NA
89	**Bill's Dollar Stores**	DOLLAR	0.5	78.28	73.5
90	**PACCAR**	AUTO	1.4	62.55	NA
91	**Yellow Front**	DDS	1.2	99.46	74.0
92	**Greenman Bros.**	TOY	0.5	180.98	55.2
93	**Click**	DDS	19.4	169.08	NA
94	**Gee Bee**	DDS	7.3	101.27	50.0
95	**Clothestime**	APP	0.5	127.61	52.6
96	**Quality Stores**	DDS	3.3	162.75	97.6
97	**K's Merchandise**	CAT	15.0	200.00	NA
98	**Sportmart**	SPORT	7.9	196.43	82.5
99	**Prange Way**	DDS	6.4	98.46	40.0
100	**Swallen's**	DDS	17.6	130.04	117.0
101	**Wall to Wall Sound**	CE	1.4	177.57	NA
102	**Bigg's**	HYPER	50.0	250.00	100.0
103	**The Good Guys**	CE	8.3	551.85	174.9
104	**Grandpa Pidgeon's**	DDS	17.5	243.06	NA
105	**Sky City**	DDS	2.1	53.03	NA
106	**Stuarts**	DDS	6.7	111.11	77.8
107	**Trader Horn**	CE	8.8	1,093.75	NA
108	**Chaffin**	DDS	4.2	108.17	96.4
109	**Office Depot**	OFFICE	5.1	253.85	69.5
110	**David Weis**	CAT	7.6	169.93	NA
111	**Luskins**	CE	2.7	303.70	148.4
112	**Staples**	OFFICE	5.4	338.07	91.5
113	**G.I. Joe's**	DDS	10.5	180.25	NA
114	**Stein Mart**	DDS	4.1	102.68	NA
115	**Arvey Paper**	OFFICE	2.8	138.89	NA
116	**Brick Church**	CE	2.5	166.67	NA
117	**Buyer's Club**	CLUB	25.0	250.00	NA
118	**Fred Schmid**	CE	5.3	438.60	NA
119	**Super City**	OFFICE	6.3	416.67	NA
120	**The Andersons**	DDS	16.7	154.32	NA
121	**NBO Stores**	APP	16.7	NA	NA
122	**Champs Sports**	SPORT	0.7	135.38	NA
123	**Laneco**	DDS	6.5	79.25	NA
124	**Academy**	SPORT	3.4	170.83	91.1
125	**The Fair Company**	DDS	10.3	128.13	82.0
126	**Tuesday Morning**	CLOSE	0.8	99.01	48.2
127	**Building #19**	CLOSE	8.9	111.11	80.0
128	**Dahlkemper's**	CAT	10.0	192.31	66.7
129	**Mars**	DDS	5.7	114.29	NA
130	**W. Bell**	CAT	4.4	219.44	79.0
131	**The Present Co.**	CAT	3.2	213.89	NA
132	**Sterling Jewelry**	CAT	15.0	250.00	NA
133	**Van Leunen's**	DDS	10.7	142.86	NA
134	**Evans**	CAT	8.0	NA	180.0
135	**Modell's**	SPORT	2.5	140.87	78.9
136	**Club Wholesale**	CLUB	13.0	130.00	130.0
137	**K & K Toys**	TOY	0.5	165.52	81.3
138	**Odd Job Trading**	CLOSE	4.1	NA	NA
139	**One Price Clothing**	APP	0.4	179.52	40.0
140	**Carrefour**	HYPER	60.0	352.94	200.0
141	**Maxway**	DDS	1.2	62.11	73.8
142	**Apex**	DDS	18.3	141.03	NA
143	**Bargain Town**	DOLLAR	0.9	65.48	NA
144	**Witmark**	CAT	6.6	189.29	88.3
145	**S&K Famous Brands**	APP	0.7	NA	NA
146	**Office Club**	OFFICE	3.4	212.50	85.0
147	**Kingsway**	DDS	16.7	166.67	NA
148	**Goldblatt**	DDS	4.8	96.00	71.1
149	**Jewelcor**	CAT	5.2	149.21	NA
150	**E.H. Tepe**	CAT	4.6	102.22	NA

Average Sales Per Store: $5.9 Million **Average Sales Per Square Foot: $183.97**

Chain Codes: • **DDS:** Discount Department Store • **APP:** Off-Price Apparel Chain • **CE:** Consumer Electronics Chain • **CAT:** Catalog Showroom • **AUTO:** Auto Aftermarket Specialty Chain • **CLUB:** Membership Warehouse Club • **SPORT**: Sporting Goods Specialty Chain • **TOY:** Toy Specialty Chain • **DOLLAR:** Dollar Variety Chain • **DRUG:** Drug Chain (with high percentage of general merchandise • **CLOSE:** Closeout Chain • **HYPER:** Hypermarket • **OFFICE:** Office Supply Megastore

NA—not available

Source: DSN *research*

Discount Stores by Region and State

Region/State	Full-Line Discounters	Catalog Showrooms	Membership Warehouse Clubs	Total	Leading Chains By Region, State			
New England	471	65	12	548	Ames/Zayre	155	Bradlees	75
Connecticut	100	10	4	114	Caldor	31	Bradlees	26
Maine	56	6	0	62	Ames/Zayre	33	K mart	8
Massachusetts	203	31	6	240	Ames/Zayre	51	Bradlees	37
New Hampshire	66	12	1	79	Ames/Zayre	27	K mart	9
Rhode Island	27	5	1	33	Ames/Zayre	10	K mart	5
Vermont	19	1	0	20	Ames/Zayre	14	K mart	3
South Atlantic	2,575	256	55	2,886	Family Dollar	714	Kmart	480
Delaware	75	4	2	81	K mart	41	Ames/Zayre	9
Florida	600	89	22	711	Dollar General	168	K mart	150
Georgia	422	18	9	449	Family Dollar	147	K mart	82
Maryland	140	34	8	182	Ames/Zayre	45	K mart	28
North Carolina	528	45	5	578	Family Dollar	214	Rose's	105
South Carolina	258	18	3	279	Family Dollar	102	K mart	42
Virginia	350	39	5	394	Family Dollar	98	Dollar General	67
Washington, D.C.	1	3	0	4	W. Bell	2	—	—
West Virginia	201	6	1	208	Dollar General	51	Family Dollar	51
East North Central	1,754	127	40	1,921	K mart	482	Dollar General	219
Illinois	381	38	7	426	K mart	105	Dollar General	81
Indiana	341	23	7	371	K mart	78	Dollar General	76
Michigan	318	29	7	354	K mart	123	Meijer	43
Ohio	554	37	16	607	K mart	125	Family Dollar	69
Wisconsin	160	0	3	163	K mart	51	ShopKo	35
East South Central	1,261	55	19	1,335	Dollar General	336	Family Dollar	308
Alabama	283	14	5	302	Family Dollar	89	Wal-Mart	67
Kentucky	360	7	6	373	Dollar General	124	Family Dollar	70
Mississippi	208	8	1	217	Dollar General	53	Wal-Mart	53
Tennessee	410	26	7	443	Dollar General	124	Family Dollar	98
Middle Atlantic	874	177	15	1,066	K mart	211	Ames/Zayre	177
New Jersey	151	36	3	190	K mart	43	Bradlees	31
New York	281	75	6	362	Ames/Zayre	98	K mart	60
Pennsylvania	442	66	6	514	K mart	108	Ames/Zayre	71
West South Central	1,199	78	50	1,327	Wal-Mart	452	K mart	226
Arkansas	199	4	3	206	Wal-Mart	76	Dollar General	48
Louisiana	255	14	9	278	Wal-Mart	73	Family Dollar	69
Oklahoma	188	8	5	201	Wal-Mart	80	Dollar General	46
Texas	557	52	33	642	Wal-Mart	223	K mart	151
West North Central	829	32	14	875	K mart	187	Wal-Mart	159
Iowa	145	1	1	147	Pamida	45	K mart	36
Kansas	115	7	2	124	ALCO	28	K mart	26
Minnesota	131	6	5	142	K mart	42	Pamida	39
Missouri	286	12	5	303	Wal-Mart	105	Dollar General	85
Nebraska	83	1	1	85	K mart	18	ALCO	16
North Dakota	29	3	0	32	K mart	12	Pamida	6
South Dakota	40	2	0	42	Pamida	12	K mart	11
Mountain	484	48	23	555	K mart	145	Yellow Front	115
Arizona	133	10	7	150	Yellow Front	63	K mart	30
Colorado	102	15	5	122	K mart	34	Wal-Mart	24
Idaho	50	2	2	54	Pay Less NW	16	K mart	11
Montana	31	3	1	35	K mart	12	Yellow Front	8
Nevada	25	2	3	30	K mart	10	Pay Less	6
New Mexico	58	10	1	69	K mart	21	Wal-Mart	16
Utah	50	5	4	59	Fred Meyer	17	K mart	17
Wyoming	35	1	0	36	Pamida	15	K mart	10
Pacific	701	83	78	862	Pay Less NW	240	K mart	218
Alaska	4	2	2	8	Fred Meyer	4	Capital Jewelers	2
California	407	62	58	527	K mart	165	Pay Less NW	138
Hawaii	7	0	1	8	Gem of Hawaii	5	Holiday Mart	2
Oregon	142	5	6	153	Pay Less NW	51	Fred Meyer	43
Washington	141	14	11	166	Pay Less NW	51	K mart	31
Total	**10,148**	**921**	**306**	**11,375**	K mart	2,145	Family Dollar	1,509

Excludes 324 Montgomery Ward stores.
Full-line discounters includes dollar discount chains.
Total numbers may vary slightly depending upon frequent openings and closings during the year.

Source: DSN research

Specialty Overshadows Full-Liners at Kmart

TROY, Mich. — Despite intensive marketing efforts aimed at attracting the baby boom generation to its discount stores, K mart's future growth is likely to come predominantly from its specialty concepts.

Last year, the company purchased a 51 percent stake in Makro, the Cincinnati-based membership club, and announced plans to expand the chain to about 20 stores by the end of 1990. It opened Office Square, an office supply megastore that, though in the experimental stage, is poised to exploit that rapidly growing retail sector.

Of the corporation's $27.3 billion in sales last year, approximately $4.1 billion was generated by its Pay Less Drug Stores, Waldenbooks, Builders Square and Bargain Harold's of Canada specialty divisions. That's nearly an 18 percent increase over the previous year. Subtracting Makro's estimated sales of $300 million (representing a 20 percent increase over 1987), K mart's discount stores sales grew only 3.1 percent last year to $22.9 billion.

This year, the company launched another experimental specialty concept, Sports Giant, a membership sporting goods chain. And, its most ambitious new launch, American Fare, debuted in Atlanta in February. While its ability to generate enough volume to justify its enormous investment is still open to question, American Fare broke new ground in discount store/hypermarket retailing with its innovative fixturing and store design, sharp prices on general merchandise and upscale sportswear merchandise mix.

"Specialty retailing is very important to our future," said chairman and ceo Joseph Antonini, during a press conference following the company's annual shareholders meeting last month. He estimated that specialty retail could contribute up to 20 percent in sales and profits to the corporation.

He further indicated the potential to speed up specialty store rollouts through the opening of K mart "power centers." Plans are on the drawing board for shopping centers containing several of what Antonini describes as K mart's "category cruncher" concepts. Such a center would combine a K mart discount store with any number of specialty stores, such as Builders Square, Office Square, Sports Giant, Waldenbooks, or even a Makro. Secaucus, N.J., has been mentioned by some trade observers as one possible site for such a center.

In comparison to the aggressive growth plans of the specialty chains, K mart's discount department store expansion appears stunted. Given the disappointing sales results recorded so far this year, it's hard to imagine how the chain will execute its plans to open 75 to 100 more full-size stores annually over the next five years, even if 30 or so will replace existing stores.

K mart completed its shift from twice-weekly advertising circulars to one circular per week this year, and has concentrated its marketing programs in event sponsorship and celebrity tie-ins.

During the Winter Olympics, K mart sponsored the United States Hockey Team and was a high-profile advertiser during the Summer Olympics telecast. It signed a three-year sponsorship with the United States Gymnastic Federation to co-sponsor the K mart Gym Kids Club.

Approximately 600,000 children belong to the club, receive a free quarterly newsletter and other membership paraphernalia. "Kids have tremendous purchasing power," noted K mart vp Michael Wellman. "They have approximately $5 billion of their own money to spend and they're influencing parental spending of over $40 billion a year."

Noting that golf has replaced tennis as baby boomers' favorite participation sport, K mart sponsored for the second year the Greater Greensboro Open golf tournament, which was broadcast on network television this April.

The company also rolled out the Martha Stewart program in an effort to establish a recognizable identity for several departments of the store: convenience products, leisure and entertainment, consumables, do-it-yourself, automotives and sporting goods.

Another opportunity for growth is the introduction of food into K mart stores through its new Super K mart general merchandise/grocery store combo units.

K mart

	1988	1987	% Change
Sales (In Millions)	$22,940	$22,241	3.1%
Earnings (In Millions)	1,436.0	1,384.0	3.8
Stores	2,145	2,105	1.9

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

K mart sales/store counts include discount stores only; earnings include Makro and specialty divisions.

Source: DSN research

Footwear
Best Buy
PRICE
$14.97

K mart, Piqua, Ohio: Growth rate of full-size stores is not expected to keep pace with expansion in specialty retailing areas. (DSN photo)

Wal-Mart Express on Track to Become No. 1

BENTONVILLE, Ark. — Wal-Mart holds the distinction of being the only company to own two of the nation's top six discount retail chains: Wal-Mart discount stores with $16.8 billion in 1988 sales, and Sam's Wholesale Club, a $3.8 billion operation.

As if that wasn't enough, Wal-Mart's Hypermart USA made its debut on *DSN's* list of the top 150 discounters at No. 69, with $275 million in sales from its three stores, two of which were open for less than half the year.

Even without a major acquisition, Wal-Mart's current growth rate will take the company past both Sears and K mart as the top retailer in the nation by 1991.

With a 27 percent sales gain over 1987, the discount store division obviously gained market share at the expense of its rivals. Same store sales at the discount stores grew by about 13 percent, more than double the industry average.

Among the chain's top performing departments in 1988 were: shoes, jewelry, pharmacy and automotives. The "Buy America" program continued to play well to the chain's core customer as well as its domestic vendors.

Many retailers began testing the everyday pricing concept last year, but Wal-Mart remains the top executor of this strategy, while continuing to cut costs and enhance customer service.

Discount store count grew from 1,114 in January 1988 to 1,259 in January 1989, specifically targeting Florida, Georgia, North Carolina, Virginia, Indiana and Colorado. The chain is expected to saturate existing markets with more than 150 net new discount stores this year.

Wal-Mart will move more slowly into contiguous markets, such as Chicago and possibly follow the opening of Sam's in Philadelphia with its own entry into the Northeast. However, a major portion of the new openings will be in the states of North Carolina, Virginia, Indiana, Florida, Illinois and Wisconsin.

Wal-Mart's new stores are larger than its older units. Besides its 89,000-square-foot metro market prototype, the chain is experimenting with a 110,000-square-foot store that could be used in as many as 20 of the new openings this year.

The installation of point-of-sale scanning was completed last year. Combined with the company's state-of-the-art satellite communications network that provides store-to-headquarters and store-to-store voice and data transmission, Wal-Mart is among the retail industry leaders at equipping its stores with Quick Response inventory replenishment. Improved technology is enabling the chain to speed the institution of shelf pricing, offering further efficiencies over item ticketing.

Last month's opening of its first "vendor store," in which a key vendor in each category is given wide latitude in merchandising its department, illustrates Wal-Mart's leadership role in establishing better relations with its vendors.

In another test with significant long-term implications, Wal-Mart opened its first Wal-Mart SuperCenter last year. The 126,000-square-foot grocery/general merchandise store that opened in a St. Louis suburb produced about twice as much sales as the older Wal-Mart unit it replaced. Other SuperCenters opened in Wagoner, Okla., late last year and in Farmington, Mo., early this year. Three additional openings are expected this year.

Given that SuperCenter is a less risky proposition than Hypermart USA, the potential for significant growth is much greater. If proven viable, SuperCenter could parallel the rapid expansion of Sam's Wholesale Club into a billion dollar chain.

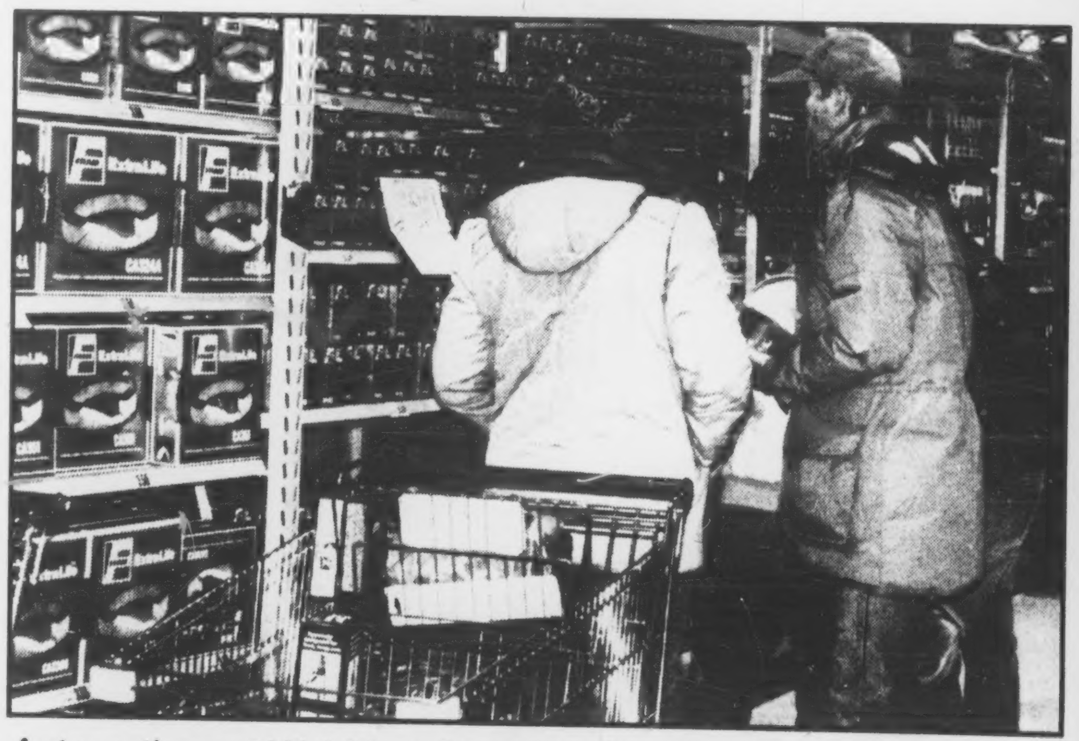
Wal-Mart

	1988	1987	% Change
Sales (In Millions)	$16,820	$13,248	27.0%
Earnings (In Millions)	1,325.0	1,068.0	24.1
Stores	1,259	1,114	13.0

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Sales/store counts include discount stores and SuperCenters; earnings include Sam's Wholesale Club and other divisions.

Source: DSN research



Automotives at Wal-Mart SuperCenter, Washington, Mo.: Sales at this 120,000-square-foot grocery/general merchandise store doubled the old Wal-Mart that it replaced. (DSN photo)

Target Steps Up Expansion; Improves Merchandise Flow

MINNEAPOLIS, Minn. — Target Stores moved aggressively forward in 1988 with the opening of 25 new locations and the acquisition of additional sites for even greater growth in 1989.

The nation's third largest discounter also reached record sales in 1988 as revenues reached $6.331 billion compared to $5.306 billion in the previous year. Operating profits at the chain based here rose 6 percent to $341 million.

Target marked 1988 with its initial entry into the Pacific Northwest. Store openings last July launched the chain's plans for 35 stores in Washington and Oregon by 1993.

In 1988, Target opened stores in New Mexico, Michigan and California, giving it 341 locations by the end of the year.

And, expansion may accelerate this year if Target, as speculated, succeeds in acquiring any or all of the Venture and Caldor stores May has apparently put on the block.

This spring, Target stretched its market reach Eastward with the opening of 30 former Gold Circle stores. Acquired in an estimated $130 million deal last fall, the stores pushed Target into Georgia, Florida, North Carolina and South Carolina for the first time. The chain also picked up markets in Tennessee and Kentucky.

Target opened the former Gold Circle stores under the chain's experimental everyday low pricing strategy.

Last year, Target joined a number of discounters to test the EDLP policy. Although Target officials have admitted to being "optimistic" about the approach, current plans do not call for a chainwide rollout.

Begun in the fall at the chain's stores in Knoxville, Tenn., and Albuquerque, N.M., the approach continues Target's shift away from print ads toward more institutional-type TV and radio ads.

To promote the opening of the former Gold Circle stores, Target used the country music singers The Judds in a month-long campaign. Within the past year, the discounter has looked to celebrities like The Judds, The Jets and Aretha Franklin to enhance its promotional approach.

At the same time Target celebrated the opening of its Southeast stores, the upscale discounter unveiled its prototype store in Eagan, Minn.

The new store design includes hypermarket-style features that help produce an airy and open look for Target. Created to improve both flow and merchandising, the prototype offers wider aisles, a new color scheme, lighted graphics and directional signage, and less distance from aisles to walls.

In addition to these changes during the past 12 months, Target also looked to improve its stock distribution and replenishment. During the year, Target opened new distribution centers in Sacramento, Calif., and Indianapolis, Ind., giving the chain a total of six across the country.

The chain also instituted a "rapid replenishment" system designed to improve stock levels on advertised products. By monitoring the hot selling items in the Sunday circular, stores and distribution centers worked to enhance inventory turns and back room congestion.

Product flow was also improved in 1988 with the help of point-of-sale (POS) scanners coming on line at all Target stores during the year. Going forward, Target is now preparing to further enhance its information systems with the installation of a satellite network. Expected to be running this fall in time for the holiday season, the system will link Target headquarters, distribution centers and stores.

By year-end, Target will have added some 60 sites countrywide, bringing its total to 401. The Southeast openings represent most of the growth, with the rest coming from 13 Michigan locations, eight stores in the Pacific Northwest and several stores located in diverse locations throughout the country.

At Target's new prototype, patio furniture is displayed amid bold graphics, wider aisles and directional signage. (DSN photo)

Target

	1988	**1987**	**% Change**
Sales (In Millions)	$6,331	$5,306	19.3%
Earnings (In Millions)	341.0	323.0	5.6
Stores	341	317	7.5

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN *research*

ICI can brighten your profit picture 16 different ways...

Ames Focuses on Digesting Zayre Acquisition

ROCKY HILL, Conn. — Last fall, Ames made what may have been the largest single discount acquisition in history when it purchased Zayre's discount stores for $800 million. The last six months have been spent digesting that huge bite, and to date, the nation's fourth-largest discounter appears to be adapting comfortably.

> ***Ames' acquisition will bring the discounter into the big leagues, with K mart, Wal-Mart and Target, and Ames could pass the latter into third place among discounters next year.***

In the short term, the buyout resulted in a first quarter loss for the company, but Ames president Peter Hollis said in the recent shareholders meeting that he expected profits to return to normal during the third and fourth quarters.

Shortly after the acquisition, sources within the company hinted that the chain's burgeoning specialty division would be allowed to languish so that resources could be spent on cleaning up the Zayre stores. However, expansion of Ames' Crafts & More outlets has actually outpaced plan, and 34 of them are expected to be in place by this fall.

Ames

	1988	1987	% Change
Sales (In Millions)	$3,363	$2,112	59.2%
Earnings (In Millions)	47.2	34.2	38.0
Stores	820	488	8.0

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Ames' 1988 sales include $1.05 billion of Zayre discount stores in the fourth quarter; store counts include Zayre acquisition in 1988.

Source: DSN research

Ames has cooled noticeably on its Office Shop Warehouse concept, which now has seven locations. Speculation is that the home office specialty chain will be put on the block, along with the G.C. Murphy variety and dollar store division, in which McCrory, among others, has shown an interest.

The most important development, though, remains the revamping of Zayre. To date, Ames has successfully cleaned up most of the stores, added new apparel, aligned product mixes to more closely match Ames, restructured field and store organizations, and started the conversion of most Zayre stores to Ames stores.

In September, all Zayre stores and 30 Ames stores will be linked to headquarters and each other by satellite, and front-end scanning, price lookup and other automated functions will be added to all stores over the next year.

That will bring Ames into the big leagues, with K mart, Wal-Mart and Target, and Ames could pass the latter into third place among discounters in the coming year.

For the year ended Jan. 28, 1989, Ames' sales totaled $3.36 billion, up from $2.11 billion a year ago. That sales increase reflects the addition of Zayre results for the fourth quarter, but earnings were probably depressed slightly by Zayre results, although the company said that Zayre was marginally profitable in the fourth quarter.

Despite the drag from Zayre, net earnings last year rose to $47.2 million from $34.2 million in the prior year. Operating income soared to $77.4 million from $57.6 million.

Store count doubled to 678 from 342 (full-line discount stores), and variety store count edged up to 172 from 146, mainly due to the opening of 28 Bargain World Stores. Bargain World is a cross between a variety store and a dollar store.

Gross Margin Rises

Same store sales jumped a healthy 5.8 percent, above industry average, and shrink, a problem since the acquisition of G.C. Murphy, shrank to the industry average of approximately 1.3 percent. Gross margin rose by a full percentage point, due, in part, to the better shrinkage figure. Ames also credits better buying and increased import buying.

The Zayre acquisition also changed Ames from a regional, rural retailer to a near-national, more urban operation. According to Hollis, the access to potentially lucrative markets like southern Florida and Chicago was an important consideration in the purchase, along with the favorable real estate position, access to urban markets, and expansion in existing markets with very little investment.

Significantly, Hollis also mentioned potential use of certain Zayre locations as retail laboratories. In one sense, that means combining retail concepts (like Crafts & More) with Ames stores, but it also means experimenting with methods of competing with Wal-Mart. As one Ames executive noted last year in reference to the continued growth of the Bentonville, Ark.-based discounter: "Wal-Mart isn't just going to stop at some state line."

The Florida Zayre stores will afford Ames the opportunity to experience head-to-head competition before Wal-Mart completes its inevitable invasion of the Northeast, Ames' stronghold. Given the effect on other regional retailers of similar Wal-Mart invasions, this could prove to be a very significant part of the Zayre acquisition.

Let us enlighten you.

From our new mercury vapor and high-pressured sodium Security Lights, available in two styles, to our dynamic point-of-purchase displays, no other lighting company does more to help you make money than ICI.

We offer a full line of quality products, packaged and merchandised to virtually sell themselves. They're competitively priced and, as a rule, you'll find a more attractive margin at the end of every sale.

So call ICI today. After all, what you see on this page are just a few glowing examples of what we have to offer.

INNOVATIVE CONTROLS, INC.
A SUBSIDIARY OF HOUSTON INDUSTRIES INCORPORATED
P.O. Box 925525 • Houston, Texas 77292-5525
1-800-248-7478

Meijer Finds Right Combination for Midwest

GRAND RAPIDS, Mich. — In its quiet, low-profile fashion, Meijer has grown into a mammoth food and general merchandise chain with 47 food and general merchandise stores and five discount stores in Michigan and Ohio. *DSN* estimates Meijer's sales hit $3 billion last year.

Privately held Meijer, which evolved from a small grocery store opened in 1935, refuses to release sales figures. But some sales estimates range as high as $3.5 billion, said Douglas Tigert, a marketing professor at Babson College, Wellesley, Mass.

Last year, Tigert studied the four 208,000-square-foot Meijer stores in Columbus, Ohio, and concluded that sales per store are approaching $100 million. At maturity, the Columbus stores are capable of sales volume in the range of $115 million to $120 million apiece, Tigert predicted.

As a chain, Meijer sales volume runs about $65 million a week, equivalent to $3.3 billion annually, estimated Robert Potter, president of Local 951, United Food and Commercial Workers union. Potter represents 21,000 Meijer store employees in Michigan. Meijer employs a total of 34,000, including 6,000 UFCW employees in Ohio.

Stores average 600 rank and file workers and 30 managerial employees, Potter said.

Meijer has to be profitable, Potter said, because its pays union wages that are 20 percent to 30 percent higher than non-union discounters pay, yet "it never cries poor mouth during contract negotiations."

Expansion at a cost of about $18 million per store is another indicator of profitability, Potter said.

Meijer will open four more combination stores in 1989, including three in Michigan this September, and five in 1990.

Its new prototype runs about 230,000 square feet in size, Potter said, including about 15,000 square feet for leased shops, such as shoe repair, beauty shop and bank branches.

In its conservative fashion, Meijer is land-banking future store sites five years out, Tigert said.

Meijer owns four store sites in Dayton, Ohio, *Crain's Detroit Business*, reported last month in an article on Meijer, and probably will build there next year. It is considering expansion into Toledo, Ohio, and Indiana, perhaps South Bend.

Indianapolis is another probable market for Meijer, Tigert said.

Meijer opened its first combination store in 1962, the same year Carrefour opened its first hypermarket in Europe, Tigert said. The marketing professor considers Meijer a full-fledged hypermarket, although the company refers to its units as "combination stores."

In the Columbus stores, food occupies about one-third of the selling space but accounts for about 56 percent of sales, Tigert said. General merchandise accounts for about 46 percent of sales from two-thirds of floor space.

Food produces sales per square foot of $900, Tigert estimates, and general merchandise, $300, for a blended figure of $480.

Gross margins on food are 14.6 percent, Tigert estimates, and 25.3 percent on general merchandise.

"Meijer is extremely profitable," Tigert said. *Crain's* estimated 1988 profits at $54 million, down from $56 million in 1987, Tigert said.

Including depreciation, the cash flow available for expansion runs about $150 million a year, he said.

Chairman of Meijer Inc. is Fred Meijer, son of the founder, Hendrik Meijer, a former barber and foundry worker who emigrated from Holland in 1907. Meijer pays no dividends to stockholders but instead retains earnings to help finance expansion.

Last October, *Forbes* magazine included Meijer on it list of the 400 wealthiest men and women in America. It calculated his net worth to be at least $350 million.

In 1988, assets of Meijer Inc. totaled $1.08 billion, *Crain's* estimated, and long-term debt was $357 million.

Meijer's 1987 return on $516 million in equity was in the range of 9 percent to 11 percent, Tigert said. "Meijer has traded a higher return for low margins, high quality and faster growth," Tigert said.

Meijer

	1988	1987	% Change
Sales (In Millions)	$3,000	$2,750	9.1%
Earnings (In Millions)	NA	NA	—
Stores	52	51	2.0

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)
NA—not available

Source: DSN research

At this Meijer store in Columbus, Ohio, groceries occupy about one-third of the total selling space, yet account for about 56 percent of sales, producing sales of $900 per square foot. (DSN photo)

1/2
PRICE
SALE
50% SAVINGS
SALE

Fred Meyer Standing its Ground Despite Invasions of its Territory

PORTLAND, Ore. — After dominating the Pacific Northwest retail scene for many years, Fred Meyer faced an onslaught of new competition during 1988.

In July, Target Stores initiated its assault on Fred Meyer's core territory with the opening of nine stores in Washington and Oregon. By 1993, the Minneapolis-based upscale discounter expects to have some 35 stores open in the two states.

At the same time, Green Bay, Wis.-based ShopKo was infiltrating the Northwest as well. By year-end, ShopKo was operating seven stores in Idaho, seven in Utah, four in Washington and two in Montana. Plans for 1989 call for ShopKo to expand futher in the Northwest, adding one store in Idaho, three in Oregon, two in Utah and two in Washington. And, the chain continues to look in many of these areas for future growth.

Yet, despite this competitive pressure, Fred Meyer's 112 stores maintained their own growth last year. Looking at 1988 comparable store sales, Fred Meyer succeeded in generating a 7.9 percent gain. Sales increased 12.2 percent during the year to $2.07 billion, while operating income registered a 3.1 percent gain, to $54 million.

During the year, the chain devoted $101 million in capital spending to expand its market coverage and improve its existing stores. Two 164,000-square-foot multi-department stores were opened—in Washington and Oregon—seven major remodels were completed, and another three were started.

Fred Meyer also continued the development of its specialty chains, opening nine jewelry stores, one general merchandise store, one nutrition center and one apparel and shoe store during the year.

In an effort to stay ahead of the competition, Fred Meyer is increasing its expansion rate this year. Current plans call for the opening of four large multi-department stores and six to 10 specialty stores. The chain also expects to finish nine remodels and start several more during the year.

Looking into the next decade, Fred Meyer plans to open five to seven large stores in 1990 and seven to 10 in 1991. At the same time the chain will continue remodeling efforts as well as the roll-out of its specialty stores.

This accelerated growth rate is just one of the recent changes at Fred Meyer since it went under the leadership of former K mart specialty division executive Fred Stevens last year.

(Continued on page 66)

Fred Meyer

	1988	1987	% Change
Sales (In Millions)	$2,074	$1,848	12.2%
Earnings (In Millions)	57.0	54.0	5.6
Stores	112	99	3.1

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN research

Pared-Down Bradlees Improves Bottom Line, Rejuvenates Image

BRAINTREE, Mass. — Bradlees approaches the turn of the decade smaller, but more profitable, having survived a takeover attempt of its parent company.

The roughly $1.4 billion debt incurred by parent Stop & Shop to thwart Dart Group's takeover bid continues to scar the grocer's financial results, but the Bradlees discount chain is clearly on the rebound.

Stop & Shop suffered a net loss of $21.5 million last year, due to leveraged buyout-related costs. Even the 10 percent sales gain during 1988 could not lift the company out of the red.

Bradlees, however, boasted a 49 percent increase in operating income during fiscal 1988, due primarily to cutbacks in advertising expenses, according to Bradlees spokesmen and the Stop & Shop 10-K report. While sales increased only 2 percent, to $2.1 billion, earnings soared to $84.9 million last year from $57 million a year earlier.

While Bradlees severely cut advertising during 1988, this year represents a new direction and reinvestment in advertising.

Bradlees will be giving "Mrs. B." a rest. As this longtime Bradlees advertising fixture goes into semi-retirement, a new corps of personalities—developed to appeal to several defined Bradlees consumer groups—will represent the chain on television.

Bradlees had conducted extensive consumer research earlier in the year to determine the composition of its shopper population and their motives for and aversions to going to Bradlees.

Banners depicting each of the new TV spokesmen were suspended above the cash registers at the Bradlees store opening in Meriden, Conn., this spring, the only store opening scheduled for 1989.

(Continued on page 67)

Bradlees

	1988	1987	% Change
Sales (In Millions)	$2,107	$2,064	2.1%
Earnings (In Millions)	84.9	57.0	48.9
Stores	131	130	0.8

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN research

Forward-Looking Hills Invests In New Stores, Technology

CANTON, Mass. — Having sown the seeds for growth during 1988, Hills is flourishing this year, and stands to reap the benefits of a 42-unit expansion program.

Already the chain has converted the 33 former Gold Circle stores it acquired last year to the Hills prototype. Six other stores are slated to open this fall: three in Michigan (two in Flint and one in Saginaw), two in West Virginia (in New Martinsville and Teays) and one in Lancaster, Pa.

Opening dates have not been announced for the balance of the 42 stores which include Robinson Township, Pa., and the Ohio towns of Ironton and Gallipolis. Keeping to this agenda, Hills will start the turn of the decade with 209 stores in operation.

This aggressive agenda comes on the heels of 16 new stores opened during 1988, which included the first unit opened in its home state, in the town of Pittsfield.

As new stores were going up, however, operating income was coming down. Investment in new technologies last year held down operating income, resulting in a drop to $98 million from $104 million.

Sales surged 10 percent to $1.67 billion. Still, the sales increase was "below plan" according to the company, which attributed the less-than-expected gain to the sluggishness in women's apparel, a problem which had pervaded much of the industry last year. The downturn in women's apparel hit Hills especially hard because 55 percent of its sales during 1988 were in soft lines.

The chain's operating income was affected by a $79.1 million expense connected to Hills' investment in a new on-line processing system for paying merchandise inventory expenses.

A smaller portion of Hills' inventories were financed by vendors during 1988 because of this new system. As a result, Hills bought its own inventories with borrowed funds. These bank borrowings for inventory drove interest expense up by $4.2 million over last year's level.

The new store openings also increased the money Hills spent to cover its borrowings: $2.5 million was required to pay for new store leases. A $4.1 million LIFO charge also hiked interest expenses.

To further prepare for the future, the discounter will be experimenting with UPC scanning this year, setting the stage for the eventual implementation of a Quick Response ordering mode.

Other preparations for future growth during 1988 included the installation of updated merchandise planning, distribution and control systems. These systems will allow the company to move ahead with UPC scanning after completion of its UPC test at selected stores.

The chain invested in its personnel as well as its processing systems during 1988. All hourly employees are now being taught "professional customer service techniques" through printed and videotaped instruction.

Hills

	1988	1987	% Change
Sales (In Millions)	$1,671	$1,514	10.4%
Earnings (In Millions)	97.7	103.5	(5.6)
Stores	167	151	10.6

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN *research*

Fred Meyer Expands to Fend Off Competitors

(Continued from page 64)

At Fred Meyer's helm for just over one year, Stevens has already initiated a new strategic plan that the ceo stated "emphasizes employee participation in shaping the direction of the company to achieve the following vision: 'Be the most creative, customer-respected, financially responsible, people-oriented retailer in America, and recognized as such.' "

Critical elements of the plan include employee workshops, improved employee orientation and increased job opportunity within the company ranks, Stevens said.

Stevens also continued Fred Meyer's ongoing process of refining its store layout and systems. In addition to improving store design and traffic flow with its new stores, Fred Meyer also expanded its scanning capabilities in 1988.

Twelve stores could process some 200,000 food, hard line and soft good sku's by the end of the year. Also by year-end, the chain expects to have food and non-food scanning at about 26 stores as well.

Gallons A
Of S

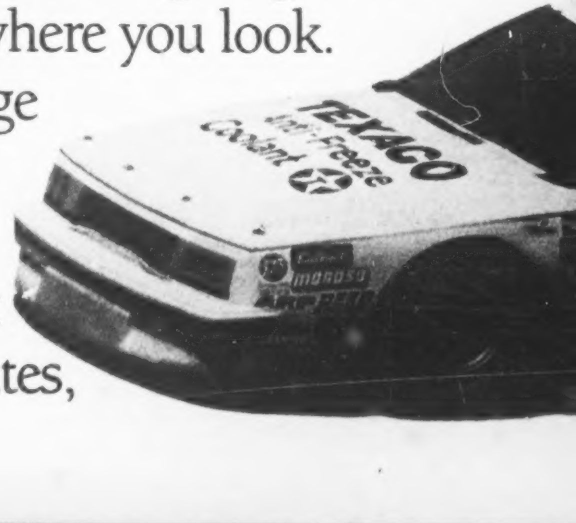
Anti-Freeze
Coolant
Corrosion protection for all engine cooling system metals, including aluminum.
WARNING: HARMFUL OR FATAL IF SWALLOWED. SEE BACK PANEL.
ONE U.S. GALLON
3.785 LITERS

We expect people to pour it in, so you expect us to pour it on. That's why we're proud to announce our brand-new Texaco Anti-Freeze Coolant support program. Total support for a product that's already increased sales 137% since '83.

Even we find it hard to keep our cool thinking about the addition of national television advertising. Our product story will now be reaching drivers from coast to coast. Texaco original equipment anti-freeze is the message. Because we're the leading supplier of factory-fill to Detroit. Which means that many of your customers are about to find out that they're already satisfied Texaco customers.

Before you know it, Texaco Anti-Freeze is going to be everywhere you look.

In a full range of targeted consumer promotions: such as rebates,



Caldor Puts the Brakes on Skidding Earnings

NORWALK, Conn. — A three-year effort to revitalize Caldor under its new owners, May Department Stores, appears to be bearing fruit.

Based on results to date, Caldor expects to report an increase in operating income for 1989, a company spokesman said. That would turn around a four-year slide in profits from $85 million in 1985 to $50 million in 1988, or a decline of 41.2 percent. Over the same four years, sales rose 22.8 percent to $1.55 billion in 1988 from $1.28 billion in 1985.

The profit ratio of earnings to sales skidded over the four years to 3.1 percent in 1988 from 6.6 percent in 1985. Its return on beginning net assets fell in the same period to 14.4 percent from 23.8 percent. Despite this improvement, at presstime, May reported it was seeking a buyer for its Caldor and Venture discount chains.

Under May, Caldor adopted a strategy of cutting gross margins in attempts to become more competitive, said Dan Barry, retail analyst for Kidder Peabody.

Operating income is starting to turn around, Barry said. Although May has released no figures, May executives seem pleased with Caldor's increased operating profit in the first quarter, compared to the same period in 1988, he said.

Caldor enjoyed a strong first quarter, with same store sales increasing 9.7 percent.

Caldor

	1988	1987	% Change
Sales (In Millions)	$1,574	$1,502	4.8%
Earnings (In Millions)	50.0	56.0	(10.7)
Stores	119	116	2.6

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN research

Sales rose to $317.9 million during the quarter ended April 1989, a gain of 12 percent from the year-earlier figure of $283.4 million.

In 1988, same store sales rose 2.6 percent and in 1987 7.7 percent. May declines to break out chain operating income on a quarterly basis.

For Caldor capital outlays in 1989, May increased allocations to $44 million from $42 million in 1988.

The bulk of the funds will go toward remodeling 20 stores encompassing 2.1 million square feet of retail space, with only one new unit for 1989. That store, located in Marlboro, N.J., opened in March, pushing store count to 120 units operating in eight Northeastern states.

Caldor opened three new stores in 1988 to its first-ever prototype and will open five more units of the 83,000-square-foot prototype in 1990, as well as renovate 20 more existing stores. Caldor's five-year expansion program calls for 25 new units from 1989 through 1993.

Caldor was built on opportunistic store acquisitions, and, consequently, it must contend with stores that range from 50,000 square feet in Stamford, Conn., to 171,000 square feet in Pelham Manor, N.Y., as well as a wide range of store shapes, including 13 two-story units. That makes it difficult to squeeze in a standard inventory mix, Caldor president Marc Balmuth said.

The renovated stores all will get a standard racetrack layout and a consumer electronics corral, or bullpen. For greater security, the corral will have just a single entrance and exit and its own checkout register that will be staffed at all times.

The renovated units will be outfitted with high-impact merchandising fixtures, including high-low apparel racks, new carpeting and new signage. The aisles will feature more impulse tables.

Smaller Bradlees Registers 48.9% Jump in Earnings

(Continued from page 64)

The Meriden unit was the first to offer shoppers a separate layette department, which will be incorporated into any future store openings and all store remodelings.

Strollers, car seats, crib sheets, infant clothing and other newborn-related merchandise are sold in the layette department. By separating these items from general juvenile categories, Bradlees has increased its space commitment to total children's merchandise, a growing sales and profit center.

During the past year, the company also decided it would no longer attempt to sell off its Philadelphia stores. At first, Bradlees tried to sell those locations along with its Southern stores. The chain's 33 Southern division stores were acquired last year by Hechinger, the Landover, Md.-based home improvement chain.

nd Gallons
upport.

Anti-Freeze Coolant
On a roll with America's top auto manufacturers!

POP materials and ad kits for self promotion. As well as in racing, where we'll be sponsoring a car on the Grand National circuit. What's more, with 14 production plants located throughout the U.S. and an excellent warehousing network, we have no problem supplying a steady stream of product to keep your shelves constantly filled.

Strong support of a top quality product with Detroit's acceptance and backed by Texaco's well-trusted name. No wonder we're boiling over with excitement.

ORIGINAL EQUIPMENT ANTIFREEZE

Contact Claude Roberts for more information at (713) 650-5920.

Texaco Lubricants Company
a Division of Texaco Refining and Marketing, Inc.

Davey Allison
Anti Freeze Coolant

TEXACO
Star of the American Road

Herman's Likely to Be Sold as Result of Takeover Battle

(Continued from page 3)

lion for the year from $640 million the previous year.

Gateway blamed Herman's poor performance during the year ended April 30, 1988, for its decline last year in per-share earnings.

Herman's operating income plunged 67.7 percent to 8.2 million pounds (about $13.9 million) from 25.4 million pounds (about $43.2 million) the previous year. Sales remained essentially flat at $640 million in fiscal 1988, compared with $630.7 million a year earlier.

Operating income margin fell to 2.18 percent, from 6.85 percent a year earlier.

Accordingly, Gateway said last July in its annual report that future expansion for Herman's into new markets "will be less marked." Instead, "the emphasis will be on opening stores within existing and recently developed markets."

Nonetheless, the "Herman's franchise remains very strong," Gateway said. Balancing the picture, Gateway said that Herman's opened a new shoe warehouse in Carteret, N.J., and enlarged an existing warehouse. The improvements "substantially reduced the problems of servicing this rapidly expanding chain," the report noted.

Herman's, the closest the United States has to a national sporting goods chain, started 1989 with 260 stores and plans to open 15 more by year-end.

Largely through acquisition of chains, Thrifty Corp. is threatening to knock Herman's out of first place in consolidated sales. Estimated sales for the 10 chains that operate under the Thrifty umbrella totaled $635 million last year from 233 stores of varying sizes.

Despite the trend toward opening sporting goods warehouses that offer complete lines of sporting goods apparel, athletic shoes, equipment—and staff to service equipment—Herman's is sticking with its format of 10,000-square-foot stores.

These units emphasize apparel and footwear and can offer only limited equipment and service compared to the 40,000-square-foot to 75,000-square-foot warehouse units of Sportmart, Sports Town, Sports Authority and Casey's Sports Castles, a Thrifty chain.

In 1985, when W.R. Grace owned Herman's, it tested an 18,550-square-foot store concept called Total Sports in Florida. Its everyday prices ran 10 percent to 30 percent less than Herman's. Merchandise was geared for lower-income customers, compared with the more affluent shoppers at Herman's. But Herman's scrapped Total Sports following a two-store test.

Last year, Oshman's invaded Herman's northern New Jersey territory by opening two of its 30,000-square-foot SuperSports USA stores, one in Princeton and another in Union, N.J. It now operates five megastores.

Herman's also owns Sunset Sports, a 41-unit chain based in Salt Lake City, Utah.

Fred Meyer Restructures Functions

(Continued from page 3)

While the vertical structure of merchandising specialization by department remains intact, the elimination of operational duties in each division prevents duplicated efforts and streamlines the company, Green said.

The restructuring move is just one of several major steps taken by the 112-store one-stop-shopping chain since former K mart executive Frederick "Steve" Stevens took over as chairman and ceo just over a year ago.

In his speech to shareholders, Stevens outlined five other strategic company goals:

- Increase market share by aggressively remodeling stores, and opening new stores in existing and new markets, including California;
- Merchandise and market specialization based on store geography and demographics. Although this step is about a year away, the new operational structure and the company's management information systems are being geared toward this eventuality;
- Further development of MIS capabilities, a department which has also been recently reorganized;
- Improved employee training in light of the increasingly competitive market and work force shortage;
- Stronger community involvement.

In discussing 1988's financial results, Fred Meyer execs noted that while it did face tough competition during the year, the chain still managed to increase sales and earnings.

First quarter 1989 figures show the chain still holding a strong position. Sales during the period rose 9.6 percent, to $620 million, despite the adverse impact of a grocery workers' strike in Seattle.

While sales were up, net income was relatively flat, due to an increase in the chain's inventory charge and a rise in interest expense. Net income in the first quarter of 1989 hit $5.74 million, just above the $5.70 million posted in the same period a year ago.

Chains Shelve Apparel Worries

(Continued from page 1)

new sanctions on China, but it did not include the removal of MFN status or any other sanction that would disrupt business as usual between Chinese apparel and textile exporters and U.S. apparel manufacturers and retailers.

As long as the U.S. government doesn't seek further sanctions, most retailers feel the last thing China wants is a disruption in the flow of apparel to the United States.

"Apparel is China's No. 1 export," said Thomas Unrine, president of Hit or Miss, the women's fashion apparel off-pricer division of TJX Cos. "It's their economic base. Things would really have to get bad over there before any real disruptions occur."

A government affairs spokesman for K mart said, "We've had no problems. Just minor shipping delays."

Stu Kessler, vice president and general merchandise manager, ladies' wear and cosmetics at Ames, said, "We're expecting a week to two week delays at most."

Kessler added that Ames has formulated certain contingency buying plans in case the situation worsens in China, but he emphasized that, as things stand now, the chain plans no buying moves. He did say, however, that there "might be a ripple effect that would cause prices on spring 1990 goods to increase," but that isn't yet known for sure.

Joe Ettore, senior vp and gmm for all soft lines at Jamesway, said he thinks there's a good chance prices will go up on certain spring items because of the situation in China.

Over the last several years, with a large increase in cut-and-sewn subcontracting by Hong Kong in China, the latter country has become the largest apparel and fabric supplier to the United States.

PACE to Install Interactive Kiosks

(Continued from page 1)

ware to monitor the terminals and, if possible, make corrections or else inform ByVideo of potential problems.

PACE isn't the first membership warehouse to deploy informational terminals. Sam's Wholesale Club tested kiosks providing information on General Tire products in four warehouses last year. The test was dropped when the kiosk vendor couldn't service the units and eventually went out of business.

PACE's installation of the kiosks is part of the 40-store chain's efforts to augment services to members as well as strengthen its position in what is rapidly becoming a more competitive industry.

This competition will see PACE open two warehouses in the greater Philadelphia area this fall, its first venture into a market already contested by BJ's Wholesale Club and Makro, which have stores there and Price Club and Sam's, which plan to open units there.

Overall, PACE plans to open eight clubs this year, including its fifth units each in Atlanta, Detroit and Denver, where Sam's, Warehouse Club and Buyers Club have stores. Other PACEs are set for Saginaw and Kalamazoo, Mich., and Raleigh, N.C.

PACE's other service enhancement moves include:

- Adding a pre-packaged fresh meat, pork and poultry section to its 10 stores in California as an expansion of its fresh products. The fresh meats were provided as a service to the chain's over 4,000 restaurant members in the state, but the products can be purchased by any customer.

The pre-packaged USDA Choice merchandise is supplied by an outside vendor who makes daily deliveries.

- Testing an in-house meat cutting operation and scratch bakery in the Baltimore warehouse as a prelude to possible chainwide deployment of these services. The meat cutting operation offers bulk sales, rather than goods in consumer sizes, of meat, pork and poultry. The meat and bakery ventures are modeled on similar operations in a number of Costco stores.

PACE was "very pleased with the sales" of the fresh meat operation in Baltimore. But "we need to look at operational issues like spoilage and make sure our controls are in place before we decide on any possible chainwide expansion," Steinbrueck said.

The chain expects to "identify" the control issues by the end of July and then decide on any expansion plans, he said.

- Developing a convenience store assortment focused on the food and equipment used by members like gas stations, "mom and pop" groceries and convenience stores who are interested in this fast-growing merchandise category. The foods, hot dogs, hamburger meat, buns, chili and cheese sauces, for example, are stocked in the grocery area while all the equipment, hot dog grills, commercial coffee makers and cheese servers, are displayed together in the hard lines area.
- Tagging a consistent core mix of basic institutional foods and office products that will always be carried as "B" items. A special colored tag with a "B" is posted on the upper right corner of the price signs for these goods.

Steinbrueck said that business members had indicated they wanted consistent merchandise—the same products from the same vendors—for such basics as institutional size cans of vegetables, computer paper and legal pads. PACE had selected this basic assortment a few years ago and now is identifying these items through the "B" item program.

- Discontinuing its test credit card program because the financial firm underwriting the venture provided poor service to members. PACE is exploring alternative programs.

McNulty to Launch Auto Warehouse Club

(Continued from page 3)

McNulty's start-up venture operation, American Business Ventures.

Auto Giant is constrained about what it can say to promote the new venture because of Securities and Exchange Commission regulations, said Douglas McLellan, director of investor relations for American Business Ventures. The SEC imposes a "quiet period" of 60 days prior to filing an initial public offering (IPO) with the SEC, McLellan said.

Since Auto Giant is within that 60-day quiet period, the indications are that it will file its IPO sometime in August.

For HQ Office Supplies Warehouse, McNulty raised an initial $7 million in an IPO last October and $20 million more by this June. It has opened about seven stores.

Auto Giant will offer several brands of tires, along with complete automotive service, McLellan said. It also expects to make a statement in light truck, van and 4X4 accessories, the fastest growing segment of the aftermarket.

In March, a bankruptcy trustee ordered the liquidation of McNulty's SportsClub. At one time the chain operated eight sporting goods warehouses, but was down to four when the hammer fell.

The SportsClub bankruptcy will have absolutely no effect on the Auto Giant venture, McLellan predicted. As a basis for his optimism, he pointed to the ease with which McNulty raised $27 million from the public for his office supplies warehouse start-up.

McNulty's reputation is built largely on his success with HomeClub, a home center chain he subsequently sold to the former Zayre Corp.

In a restructuring last month, Zayre spun off HomeClub and BJ's Wholesale Club into Waban Inc. Wall Street valued the new corporation's stock at $508 million. While no breakdown of that value is available, HomeClub obviously accounted for the lion's share, with 49 units to 22 for BJ's.

DISCOUNT STORE NEWS

(ISSN 0012-3587), is published biweekly—every other Monday—24 times a year except issues of April 24 and Aug. 7, which are published every third week; monthly in December—by Lebhar-Friedman Inc., 425 Park Ave., New York, N.Y. 10022. Subscriptions are available at no charge to qualified retailers and wholesalers. Paid subscriptions are available to manufacturers and their reps, schools, libraries, govt. agencies and all others—one year, $69; Canada: one year, $75; Foreign subscriptions-Airmail only: $175 (U.S.$ only). Single copy rate $4, except annual census issues $35 ea.

Second-class circulation postage paid at New York, N.Y., and additional mailing offices.

Copyright© 1989 by Lebhar-Friedman Inc. All rights reserved.

Postmaster: please send address changes to Subscription Department, *Discount Store News*, 305 Madison Ave., Suite 535, New York, N.Y. 10164-0659. For change of address six weeks notice is requested. Give old and new address and zip code. If possible, enclose address portion from cover of previous issue.

Vol. 28, No. 14 July 17, 1989